DOCUMENT RESUME

ED 257 345 HE 018 374

AUTHOR	McAlvey, Warren C.; Price, Anne J.
TITLE	Student Loan Collection Procedures. Revised Edition.
INSTITUTION	National Association of Coll. and Univ. Business Officers, Washington, D.C.
REPORT NO	ISBN-0-915164-25-6
PUB DATE	85
NOTE	263p.; For related document, see ED 187 192.
AVAILABLE FROM	National Association of College and University Business Officers, One Dupont Circle, Suite 500, Washington, DC 20036-1178 ($30.00).
PUB TYPE	Guides - Non-Classroom Use (055)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	*College Students; Court Litigation; Credit (Finance); *Federal Aid; *Financial Services; Health Occupations; Higher Education; Legal Responsibility; *Loan Repayment; Nursing Education; *Student Loan Programs; Student Responsibility
IDENTIFIERS	Bankruptcy; *Debt (Financial); Health Professions and Nursing Student Loan Prog; *National Direct Student Loan Program

ABSTRACT

Guidelines for loan collection staff who award/service college student loans are presented. Attention is directed to sound collection procedures, three specific loan programs, suing a defaulted borrower, the Family Educational Rights and Privacy Act and the use of credit bureaus, and student loan borrower bankruptcy. Loan collection procedures for all types of loans, including institutional loans, are covered with attention to making the loan, servicing accounts before repayment, the in-school period, the exit interview, the billing process, interrupting the billing process, and the collection process. Procedures for the National Direct Student Loan (NDSL) program (a continuation of the National Defense Student Loan Program), the Health Professions Student Loan program, and the Nursing Student Loan program are discussed in detail. Additional topics include: types of legal action with defaulted borrowers, steps in suing a borrower, settling a suit out of court, disclosure of information, functions of a credit bureau, and chapter 7 and chapter 13 bankruptcies. Appendices include 83 exhibits consisting of sample letters, forms, and other documents that illustrate the text. Included are government forms, which may change over time, and a glossary. (SW)

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ED257345

Student Loan Collection Procedures

(Revised Edition)

Warren C. McAlvey

Anne J. Price

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Printed in the United States of America

Library of Congress Cataloging in Publication Data

McAlvey, Warren C.
Student loan collection procedures.

1. Student loan funds—United States. 2. Collecting of accounts—United States. 3. Collection laws—United States. 4. Debtor and creditor—United States.
I. Price, Anne J. II. Welzenbach, Lanora.
III. National Association of College and University Business Officers. IV. Title.
LB2340.2.M37 1985 378'.362'0973 85-312
ISBN 0-915164-25-6

Cover photograph courtesy of Virginia Polytechnic Institute and State University, by Don Massie

Edited by Lanora F. Welzenbach

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Exhibits

Exhibits are found in the Appendixes listed at the end of the Contents section. The Exhibits are numbered consecutively from 1 through 83, and are divided into four Appendixes according to use. Documents in Appendix I form a general group and are labeled "Exhibit GEN-1," etc. In Appendix II are NDSL documents, labeled "Exhibit NDSL-37," etc.; in Appendix III, HPSL and NSL documents, labeled "Exhibit HPSL/NSL-55," etc.; and in Appendix IV, documents illustrating chapters 4, 5, and 6, labeled "Exhibit LEGAL-69," etc. Exhibits are intended *only* as examples, which serve to illustrate the text.

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Acknowledgments

The authors of this revision of *Student Loan Collection Procedures*, Mr. McAlvey and Ms. Price, are mentioned on the title page and in the Preface. Mr. McAlvey is manager, loans receivable, at Michigan State University and has been involved with student loans since 1961. He has served on the faculty for NACUBO/NASFAA Student Loan Workshops since 1975. He is author of *A Guide to the Repayment of Multiple National Direct Student Loans*, published by the Office of Student Financial Assistance in 1984, and was also involved in the preparation of *Management of Student Aid*, published by NACUBO in 1979.

Ms. Price, who worked with the Student Financial Assistance Training Program before coming to NACUBO, was involved with preparation of a six-monograph series for the Office of Student Financial Assistance—*The Business Officer's Guide to Student Aid*—during her tenure with NACUBO. She was staff liaison to the Student-Related Programs Committee from 1982 to 1984, when she worked with student aid and student loan issues on a daily basis.

Members of various NACUBO committees were involved in preparation of the present revision, including: the Steering Committee, which directly supervised the project; the Faculty Committee for Student Loan Collections Workshops (1982-83); Programs for Small Colleges Committee (1983-84 and 1984-85); Minority Institutions Committee (1983-84 and 1984-85); Two-Year Colleges Committee (1983-84 and 1984-85); and Student-Related Programs Committee (1983-84 and 1984-85). Members of these committees and of the Steering Committee for the 1977 (first) edition are listed below.

Following the committee lists are the names of other volunteers, both individuals and institutions, who reviewed material in the book and/or contributed forms and other documents found in the Appendixes. To all these volunteers, including any who assisted in some way but might not have been mentioned, NACUBO expresses its gratitude.

Robert J. Henry, Sonoma County School and College Legal Services, deserves special mention for the unusual amount of assistance that he contributed to the project. He provided much of the information appearing in the chapters on suing a defaulted borrower and student borrower bankruptcy.

Special thanks are due the officials at the Department of Education and the Department of Health and Human Services for their careful review of the book, excellent comments, and contribution of updated forms to make materials in this revision as current as possible. Names of particular officials are listed with reviewers.

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Preface

This 1985 edition of *Student Loan Collection Procedures* offers a complete revision of the book first published in 1977, as well as three additional chapters: "Suing A Defaulted Borrower," "The Family Educational Rights and Privacy Act and the Use of Credit Bureaus," and "Student Loan Borrower Bankruptcy." The 1977 edition of the book, written by Warren C. McAlvey of Michigan State University, was initiated by the NACUBO Programs for Small Colleges Committee in response to a need for information on educational loans. Representatives of that committee and of the Minority Institutions Committee and the Student-Related Programs Committee participated in the oversight group of that edition as well as of the present book. See "Acknowledgments," page xi, for a complete listing of committee members involved with the production of the 1985 revision.

This revision was prepared under the direction of a Steering Committee chaired by John H. Clark, California Institute of the Arts, who was also chairman of the Steering Committee for the first edition. Members of the 1985 Steering Committee are listed below:

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Lester Brookner, Miami-Dade Community College
Stephen F. Harran, Jr., Skidmore College
John J. Kessen, Saint Francis College
John L. Proctor, University of Oklahoma

The present book was written by Mr. McAlvey and Anne J. Price, formerly of NACUBO staff, as a result of the continuing need for more current information on educational loans, as more and more persons depend on these loans to meet the rising costs of higher education. Various changes in federal legislation and regulations concerning student loans have occurred since 1977 and the revised chapters in this book reflect those changes. The three new chapters offer additional information on areas that have become significant in recent years to loan collection officers. Such areas include the use of credit bureaus, billing services, collection agencies, law firms specializing in collections or litigation, and related services.

As loan programs have grown and regulatory requirements have changed, the loan collection office—often part of the business office—has grown in importance to the institution. The fiscal health of an institution can be influenced by the ability of its collection officers to insure that funds loaned to students—whether such loans are institutional or federal—are returned so that they can be used again to aid other students.

Officers responsible for loan collection have discovered that they are now expected to be knowledgeable in many new areas: sophisticated collection techniques for difficult borrowers, use of consumer credit bureaus, truth-in-lending laws, skip-tracing methods, contract law (when suing a defaulted borrower), bankruptcy law and procedures, consumer protection laws, and the Family Educational Rights and Privacy Act. All these areas are covered in this book—and always with the advice to seek legal or other expert assistance whenever necessary.

The three new chapters are intended to provide guidance for loan collection staff and are not meant to cover every legal situation that might arise in collection activity. Laws and practices vary widely from one jurisdiction to another and the characteristics of individual cases may influence appropriate legal action.

All materials in the book, including both text and documents in the Appendixes, received extensive review from government agency officials, legal experts, business officers, loan collection officers, financial aid administrators, and others. All comments were carefully considered in the writing and editing of the book.

The Contents section is presented in detail, with headings and subheadings in each chapter listed for quick and easy reference. The Appendixes include 83 Exhibits consisting of sample letters, forms, and other documents that illustrate the text; Exhibits are referenced in chapters where appropriate. A list of Exhibits, including identifying numbers and initials, titles, and pages where they are located, appears at the end of the Contents section. Please note that all Exhibits are intended as examples *only*. Certain standard government forms are also presented, but these may change over time. Collection-related instruments vary from state to state and collection officers should determine what kinds of forms and other documents may be used, pursuant to their individual state laws.

Finally, readers are cautioned that the student loan collections area is not only complex but is constantly in a state of flux. For example, at the time of this writing the Department of Education (ED) has draft regulations in process that would institute changes in NDSL due diligence procedures covered in this book. Also, the Department of Health and Human Services (DHHS) recently issued *proposed* regulations on due diligence for the Health Professions and Nursing Student Loan programs. Since these proposed changes are not final at the time of this writing, they have not been incorporated into the text. Therefore, it is imperative that those involved with student loan collections monitor the *Federal Register*, "Dear Colleague" letters, and other directives from ED and DHHS to keep current on changes in federal regulations and collections policy.

The "Acknowledgments" section lists the reviewers and other contributors to the preparation of this book. Without their assistance, the task could not have been completed. To them and to everyone who helped with this book but might not have been included in the list, NACUBO wishes to express its gratitude.

Sound Collection Procedures: The Student Loan Process

To lend, according to Webster, is "to give for *temporary* use on condition that the same or its equivalent *be returned*." Further, the dictionary defines a loan as "something lent for the borrower's temporary use, for a limited period of time." A look at these clear, precise definitions helps to underscore the most important aspect of student loan collection procedures—that they begin when the loan is made.

This chapter covers basic loan collection procedures for all types of loans, including institutional loans. If these procedures are followed, the result should be successful collection of most student loan accounts. (Procedures that are specific to certain types of loans are presented in chapters dealing with those particular loans.)

General Considerations

Administrative Responsibilities

Proper administration of loan funds depends on a smooth interrelation among all parties involved with the loan program. Loans that are correctly reviewed, approved, recorded, and maintained from the beginning are less likely to become problems to collect than are loans made casually and administered carelessly, which can result in loss of funds to the institution. To guarantee smooth administration, it is essential that:

1. There be a clear-cut division of responsibilities between institutional staff members responsible for authorizing loans and those responsible for disbursement and collection.
2. These staff members coordinate their efforts so that no procedures lapse.
3. Each person involved in administering a phase of the loan program be familiar with the *entire* program.

If the institution is small, and if staffing requirements are such that a division among personnel is not possible, some internal controls for separation of functions should nevertheless be established. Good management practices do not allow one person to be responsible for approval, disbursement, and collection of loans.

In those institutions where financial aid administrators are not involved in collection (and it is recommended that their duties *not* include collections), they still play a significant role in insuring collectibility of loans, despite the clear requirement that many loans must be awarded purely on the basis of need. The financial aid administrator, in authorizing loans, should obtain information on individual circumstances, which may be relevant in future dealings between institution and borrower. Financial aid administrators should make borrowers aware of conditions of their loans and terms of repayment. This information must be included in the exit interview for certain loan programs. In any case, it is unlikely that loan funds can be administered effectively if the borrower is not aware of program terms prior to becoming obligated.

Operating Procedures

As each institution becomes familiar with the loan programs, it should develop a loan procedures manual, which includes necessary steps to insure fulfillment of each loan program's requirements and covers everything from making the loan through retirement of the debt. The manual should include:

1. General institutional policies regarding each loan program.
2. Statements of divisions of responsibilities within the institution's management.
3. Policies and guidelines for making and collecting loans.

4. Procedures described in each loan program's concept of "due diligence."

a. Preloan counseling (including truth-in-lending or disclosure requirements)
b. Proper disbursement
c. Adequate records to be on file in the institution
d. Exit interview (including truth-in-lending or disclosure requirements)
e. Establishment of repayment schedule
f. Issuance of statements of account
g. Billings
h. Follow-up correspondence
i. Other

This manual may serve as a set of standard operating procedures and can be used in determining whether the institution took steps necessary to effect an adequate loan-making and collection program. Such use of the manual may help to avoid student delinquencies. The manual also may serve as a guide for training new institutional staff in operation and management of the program.

Many institutions have found a committee made up of financial aid staff, business office staff, and others directly involved or concerned with student aid, to be very helpful. From this group may come recommendations for loan policies that are acceptable to both business and financial aid offices. In setting administrative procedures, it is advisable to check them with institutional auditors to make sure procedures do not violate good internal control.

Adequate Communication Among Offices

Cooperation among institutional administrators such as the registrar, dean of students, bursar, alumni officer, and data processing staff is essential for smooth functioning of the program. Necessary information shared by these administrators does not constitute a violation of the Family Educational Rights and Privacy Act, because such information and documentation are needed for operating the loan program and would remain within the institution.

The registrar's office performs a vital function in loan administration, even though this office is seldom considered a part of the loan process. It is from the registrar's records that information is obtained as to the student's enrollment status (full- or part-time) as well as his or her citizenship. It is often necessary to use these records to discover whether borrowers are still enrolled in the institution and, if so, at what level; further, the registrar's records often provide a borrower's most recent address.

Information from the dean of students' office might be used to learn why some borrowers withdrew from school. It is also through this office that disciplinary action is taken if a student fraudulently obtains a loan.

Many bursars' offices have a vital role in disbursing loan proceeds and in receipting payments.

The alumni office is a good source for locating skipped borrowers, especially if the borrowers have been graduated. Many professional schools (such as medicine and law) maintain their own alumni offices and depend on former students for support. Therefore, addresses obtained from them are usually correct.

Data processing, in recent years, has become the right arm for most financial aid and business offices. The ability to maintain records and obtain reports in a fraction of the time it once required has been a significant advance.

Good communication among offices and a clear understanding of the need for information usually produces the necessary cooperation. If there is any problem in obtaining information, someone in authority at the institution should be asked to intervene.

Due Diligence

Some loan programs allow for discharge or forgiveness of the commitment to repay if, for a reason specifically related to the terms of the loan and the purposes of the program, payment is not possible. Most programs are not so lenient, however, and require an institution to use "due diligence" in attempting to get the borrower to repay. Due diligence is the attention and care expected or required of an institution in carrying out the terms of the loan program, and which is characterized by timely, steady, earnest, and energetic effort in loan collection.

Each loan program may have different due diligence requirements. Institutional loans, for example, have requirements set by their loan committees or by the funding source. Usually, in addition to having a legally acceptable promissory note, loan programs require advance notices and consistent follow-up that lead to successful collection or to some sort of write-off. Other collection tools, such as holds on registration or transcripts, use of collection agencies, or litigation, also may be used. (See federal regulations

or other chapters in this book for minimum due diligence requirements for specific programs.)

Due diligence, then, amounts to providing consistent follow-up and care in the total loan process. A good rule of thumb is to ask "What would I do if the money I am lending and collecting were mine?"

Making the Loan

Ease or difficulty in loan collections begins with the decision concerning approval of a given loan. While one may not be able to anticipate potential delinquencies, information that can be helpful in detecting possible problems should not be ignored. This is the essence of the requirement that institutions use prudent lending judgment in approving loans. If there is any indication whatever that a potential borrower will be unwilling to repay, the loan should not be granted. Therefore, communication among those offices that make loans, disburse loans, and collect loans is imperative.

Approving Loans

Loan approval should be given only after careful consideration of information contained in the student's application. The loan amount should meet the needs of the borrower (within limits imposed by the loan program), but not be greater than is needed, because this burdens the borrower with unnecessarily heavy repayment.

If a student knowingly makes false representations in a loan application with the intent that the institution rely on those representations (for example, if a student falsely states that he or she is registered or if a student intends to drop out or does not intend to register, yet receives aid), the institution may be able to take action for fraud against the student. Since the applicant, in most cases, must sign the loan application under oath, the state or local prosecuting attorney should be consulted for criminal violations that may be involved. Federal violations also may be involved; the U.S. attorney's office should be consulted.

Loan approvals usually are a function of the financial aid administrator but may benefit from his or her consultation with the business officer in regard to previous credit dealings between institution and borrower. Such credit checks are helpful because students who pay other institutional obligations late may also become delinquent in repaying their loans.

Educating Borrowers

All loans have rules, or terms, which the borrower is expected to follow. These terms tend to change over time. Sometimes changes affect all outstanding loans and sometimes only new loans. It is essential that there be procedures for timely dissemination of this information to borrowers.

If changes in rules affect only borrowers of new loans, informing students of the new rules when a loan application is made should suffice. However, if changes affect all outstanding loans, borrowers must be informed by letter. If institutions fail to notify borrowers, the latter cannot be held responsible for failing to abide by the rule.

Preloan Counseling

Borrowers must be made aware of all relevant terms of a loan program *before* they decide to accept or reject a loan. This is done in preloan counseling, usually by the financial aid administrator, who provides the borrower with information needed for this decision, including that on all rights, privileges, options, and obligations that become a part of the loan. A "Statement of Rights and Responsibilities" (Exhibits NDSL-38 and HPSL/NSL-57) should be signed by the borrower, who receives a copy. The original should be filed in the institution. This statement should cover all pertinent and required information on the loan program involved.

If the statement of rights and responsibilities is designed correctly, it also may suffice for the required "Truth-in-Lending" or "Disclosure" statement (see p. 4). During preloan counseling, it also is appropriate for the borrower to complete a "Personal and Confidential Information Form" (Exhibit GEN-1), which can be used later for skip-trace information.

Use of an approximate monthly payment chart (Exhibit GEN-2) helps to give the borrower an idea of the total amount borrowed to date and what that figure means in terms of future payment size. For example, in a preloan session, the counselor might say "$2,500 is your total outstanding balance, including the approved amount on this request. Based on this amount, your approximate monthly payments would range from $30 minimum to $32 maximum." One of the most important factors in an institution's success in collecting loans is the borrower's understanding that the money he or she received *is a loan, which must be repaid.* No loan should be granted

without making sure that the borrower has this understanding.

Information on the Borrower

During preloan counseling, the borrower should be asked to provide information that can be used for skip-tracing. The institution should not wait until the exit interview to obtain such data, since the information is needed on all borrowers, including those who drop out or fail to have the exit interview. In many cases, the latter are those about whom such information is most necessary.

A new "Personal and Confidential Information Form" should be completed each time the borrower applies for a loan, so that information about the borrower is both as current and as extensive as possible, thus increasing the chance of locating the borrower should he or she move and fail to leave a forwarding address.

Truth in Lending

The Consumer Credit Protection Act—P.L. 90-321 (12 CFR 226) in Regulation 2—requires institutions to provide truth-in-lending information on all loans except National Defense/Direct Student Loans (NDSLs), Guaranteed Student Loans (GSLs), and Parent Loans for Undergraduate Students (PLUS; also known in some states as auxiliary loans). These three require disclosure information not covered under truth in lending.

The "Official Staff Commentary on Regulation Z, Truth in Lending," issued by the board of governors of the federal reserve system in December 1981, gives the following instructions on student educational credit:

> "A credit extension for educational purposes in which an educational institution is the creditor may be treated as either a credit sale or a loan regardless of whether the funds are given directly to the student, credited to the student's account, or disbursed to other persons on the student's behalf. The disclosure of the total sale price need not be given if the transaction is treated as a loan."

The truth-in-lending requirements listed below assume that the institution chooses to treat the credit as a loan. (If the institution chooses to treat the credit extension as a credit sale, the "total sale price," or total cost from which the loan principal is deducted, must be disclosed on the final truth-in-lending statement. At some institutions, the total sale price would include tuition only; at others it would include tuition, room and board, and other fees.)

Required Information

1. *Identity of the creditor.* Institution's name and, if it is part of a larger system, the branch; institutional address might also be included.

2. *Amount financed.* Principal loan amount, using the term "amount financed" and a brief description such as "the amount of credit provided to you or on your behalf."

3. *Itemization of amount financed.* Separate itemization, listing amount distributed directly to the borrower, amount credited to the borrower's account at the institution, any amounts paid to other persons by the institution on the borrower's behalf, and the identity of these other persons. (If truth-in-lending information is given to the student borrower on two separate forms, one when the loan is obtained and one prior to repayment, itemization on the form given prior to repayment would simply list the loans that make up the total amount borrowed, not to whom those funds were disbursed.) This requirement may be satisfied by including a statement indicating that the borrower has the right to receive a written itemization and giving the borrower a space on the form to request such an itemization.

4. *Finance charge.* "Finance charge," using that term, and a brief description such as "the dollar amount the credit will cost you."

5. *Annual percentage rate.* "Annual percentage rate," using that term, and a brief description such as "the cost of your credit as a yearly rate." If no interest or reduced interest is charged while the borrower is in school, the institution must include the interest rate "prior to repayment" (even if it is zero) and "during repayment."

6. *Payment schedule.* Number, amounts, and timing of payments scheduled to repay the obligation. The schedule should include dollar amounts of largest and smallest payments, for example, 119 payments of $101.24 and one payment of $100.51.

7. *Total of payments.* "Total of payments," using that term, and a brief descriptive explanation such as "the amount you will have paid when you have made all scheduled payments."

8. *Prepayment.* Statement indicating whether a penalty may be imposed if obligation is prepaid in full.

9. *Late payment.* Any dollar or percentage charge that may be imposed before maturity because of a late payment.

10. *Contract reference.* Statement that the borrower should refer to the promissory note for information about nonpayment, default, the right

to accelerate maturity of the loan, and prepayment rebates and penalties.

The institution is also required to disclose interest rates, demand features of the loan, security interest, insurance, certain security interest charges, the loan assumption policy, and any required deposit, if these items are a part of the loan program.

Often, the total amount a student will borrow under a loan program is not known when the borrower receives his or her first loan. Therefore, the Federal Reserve Board allows student credit truth-in-lending disclosures to be reported to the student on two truth-in-lending forms, one given to the borrower as loan funds are awarded or disbursed (an interim form) and the other just prior to repayment, when the total amount extended under the loan program is known. For interim advances of student loan funds, the institution does not need to disclose the finance charge, the payment schedule, the total of payments, or the total sale price (if the transaction is treated as a credit sale).

The truth-in-lending information must be presented as a separate document or, if included in the promissory note or with other relevant information, be separated from other items by bold dividing lines or placed in a boxed section.

No additional information may appear with the truth-in-lending information except as specifically permitted. Institutions that wish to add information should consult the April 7, 1981 regulations. More than one interim truth-in-lending statement may appear on a single page so that, for example, borrowers with three loans could receive one page instead of three. However, there must be no doubt as to which statement applies to which loan so that the borrower has the opportunity to accept or reject each separate loan.

All truth-in-lending disclosure information must be made clearly and conspicuously in a form that the borrower may keep. Disclosures must be grouped together, segregated from all other information, and must not contain any information not directly related to truth-in-lending disclosure requirements. Disclosures *may* include acknowledgment of receipt, date of the transaction, and borrower's name, address, and account number. Itemization of the amount financed must be separated from other truth-in-lending disclosures.

The terms "finance charge" on the final form and "annual percentage rate" on both the interim and final forms, together with a corresponding amount and percentage, must be more conspicuous than any other disclosure except the institution's identity.

Truth-in-lending disclosure must be made before the borrower becomes contractually obligated to the loan; thus, it is important that the borrower receive and sign an interim disclosure form before receiving an advance of funds. Final disclosure on total amount borrowed must be given at the exit interview. For loans with total proceeds advanced at one time, and with a definite due date, an interim disclosure is not necessary. In this case, truth in lending would consist of giving final disclosure information.

Failure on the part of the institution to provide this information can be a basis for a defense by the borrower for nonpayment. "Regulation Z," or 15 USC 1601, states in section 130(e), in connection with civil liability, that "Any action under this section may be brought in any United States District Court, or in any other court of competent jurisdiction, within one year from the date of the occurrence of the violation."[1]

If the institution's rights and responsibilities statement is not designed to cover truth-in-lending interim disclosure requirements, Exhibit GEN-3 may fill this need, especially for Health Professions Student Loans (HPSLs) and Nursing Student Loans (NSLs). Exhibit GEN-4 may be used at the time the borrower enters repayment.

Promissory Note

The promissory note is a legal document that binds the borrower to the repayment obligation, to terms that created the loan fund, and to regulations and policies that govern the loan program. The note must be properly completed and should contain no errors. If an error is found, a correction should be made and then initialed by the borrower as evidence that he or she is aware of the change in the note; the institution should also initial the change. This step may be extremely important if it becomes necessary to use legal action in collection. The note also must be adequately safeguarded by maintenance in locked and fireproof or fire-resistant storage.

Each loan program requires a note containing terms suited to that particular fund. (See Appendixes on particular loan funds for examples.)

[1] Both "Regulation Z, Truth in Lending," and the "Official Staff Commentary on Regulation Z, Truth in Lending" are available from: Publication Services, Board of Governors of the Federal Reserve System, Washington, DC 20551.

Loan notes vary not only from one loan program to another, but among institutions (Exhibits GEN-5 and GEN-6).

In designing a note form, readability should be considered. The institution should also include all available options (such as a $30 minimum payment, loan acceleration, etc.), even though it may not plan to enforce them, since an institution, if it later decides to use an option, cannot force a borrower to abide by any that are not included in the note.

If the loan program calls for several advances over a period, the institution should decide whether to use an "open-ended" or a "closed" or "limited" note. An open-ended note contains no fixed figure and may continue to be used by adding advances as long as the borrower remains eligible for funds. The closed or limited note contains a fixed figure that limits the note to no more than a certain dollar amount. For example, the note may be for $300 with three advances of $100 each. The closed or limited note would require a new note form for each approved application. The open-ended note is useful when the disbursing function is in the financial aid office. (In no instance should both approving and disbursing functions be the responsibility of the same person.) However, consideration should be given to the closed or limited note if the disbursing function is not in the financial aid office, for reasons of integrity of the fund. Using the limited note can protect against advances being given without approval by the financial aid administrator. All notes and/or advances must be signed or initialed by the borrower and dated.

Each note form should contain a place for the borrower's address or some form of identification other than merely the signature. The loan also should be authorized by an appropriate administrator in the financial aid office. Where it is not practical for individual notes to be signed by a financial aid administrator, other appropriate safeguards, such as a signed approval list, should be taken to insure that the loan was properly approved.

Disbursement Procedures

Disbursement has taken many forms over the years and varies greatly among colleges and universities. Some institutions merely credit a borrower's account with proceeds of the loan, while others issue cash, checks, or forms of scrip.

A recommended procedure is to issue a check, which requires the borrower's endorsement, rather than to issue cash or to credit a student's account. Issuing a check should resolve any future questions if a borrower should state that he or she never received the money.

It is also recommended that the check be made payable to both student and institution. Loans are granted for educational costs. Therefore, the institution can require the borrower to use the money to pay for items such as tuition, books, fees, and room and board, or the institution can refuse to cash the check and thereby negate the loan.

Some institutions credit a borrower's account rather than issue checks or cash. Their reason is their ability to recover funds should a determination be made that a borrower did not qualify, or that on the student's withdrawal a refund was due the institution.

If the institution chooses a form of disbursement other than by check, it should be certain that a clear audit trail is left, including an acknowledgment of receipt from each borrower, indicating the method by which payments were made.

Servicing Accounts Before Repayment

Student Loan Ledgers or Journals

When a student loan has been granted, the institution must account for the outstanding balance. Typically, this is done by posting to a ledger card, using a posting machine (Exhibit GEN-7), or by entering the loan information into a computer system. Individual ledgers are used for each borrower and summary ledgers are used to record totals of all borrowers' ledgers. Tapes of individual ledgers are run monthly to insure that they remain in balance with records in the institution's accounting department. If the institution uses a computer, individual loan accounts are kept in a student loan journal (Exhibits GEN-8 and GEN-9), from which totals are automatically obtained and printed. Each month, these totals should be reconciled with bookkeeping records to be sure the accounts are in balance.

Ease in completing institutional and federal reports is often in direct relation to the amount of information contained in the ledger or journal. Therefore, careful consideration should be given to reporting needs when designing the ledger card or computer program.

Student Status Update

In addition to posting advances to a ledger account and keeping an accurate record of the total amount borrowed by each student, the institution must know when each loan is to be billed.

Institutional loans usually have a due date established for billing when the loan is granted. In such cases, nothing further need be done until that time.

Due dates for NDSLs and NSLs depend on the date the borrower is last enrolled as at least a half-time student. HPSLs require full-time student status. These three loan programs require action by the institution to insure that borrowers are still enrolled at the required level of attendance.

If the institution uses a computer system for loans, a match can be made between the loan system and the registrar's records, providing the borrower is still in school. If records do not match and matching is done on a term or semester basis, it can be assumed that the borrower left at the end of the preceding session. The account immediately should be placed on repayment status and repayment information should be sent to the borrower. Following this procedure should insure that no account enters past-due status without having had the benefit of grace period notices, as required by most loan programs.

If the institution does not use a computer system to record loans, some other system must be established to determine if borrowers are still in school, even though such systems are often time-consuming. Following are a few suggestions for these systems:

- Visually check each account against a copy of the fee run (list of registered students).
- Check each account that does not receive an advance.
- Provide a list of all borrowers shown to be in school to the registrar's office and request verification.
- Enter an expected separation date on the ledger; sometime prior to that date (each semester, if possible), verify it with the registrar's office.

Borrower Information Update

Most borrowers continue to receive loans as long as they remain in school. Each time they apply for a new loan, they should be required to complete a new statement of rights and responsibilities (Exhibits NDSL-38 and HPSL/NSL-57) and a new personal and confidential information form (Exhibit GEN-1). If such information is kept current, not only will borrowers be hard pressed to state later that they were unaware of their rights and responsibilities, but institutions will "lose" fewer borrowers because of lack of information.

Monitoring Loan Status

Most loan programs require reports that ask the institution to "break down" accounts according to their status. The capability to know the status of an account at a glance greatly helps operation of the loan program. Some systems use numerical codes; others, alphabetical codes; still others, a combination of the two. Each institution should use a system that best meets its particular needs (Exhibit GEN-10).

Exit Interview

Exit interviews are required for NDSLs, and are strongly suggested for HPSLs and NSLs (required exit interviews have been proposed for the latter two). They should be part of any long-term loan program that has disbursement spread over more than one advance, and of programs with long delays between disbursement and repayment. Institutional short-term loan programs normally would not require an exit interview.

Goals of Exit Interview

An exit interview provides an opportunity to discuss with the borrower his or her financial responsibilities and to obtain updated information that may help the institution collect the loan. Whenever possible, the exit interview should be conducted on an individual basis. If necessary, however, the interview may be conducted with a group or even by mail. Borrowers who are fully aware of their loan obligations and who know what will be expected during repayment are, in most cases, borrowers who cause few collection problems.[2]

[2] In May 1978, the Comptroller General of the United States compiled a report on NDSLs for the Committee on the Budget entitled "Status of Office of Education's National Direct Student Loan Funds at Selected Postsecondary Education Institutions." Reference is made in this report to a study conducted by the Educational Testing Service in 1974 that ". . . showed that schools having lower delinquency rates were more likely to conduct exit interviews with nearly all graduating borrowers and vice versa. . . . There was also

Who Should Give the Interview?

Federal loan regulations do not specify the institutional officer who should give the exit interview. Some institutions make the financial aid office responsible for the interview because that office made the loan and there is likely to be good rapport between the student and the office. However, the exit interview deals with repayment, and therefore the person responsible for collection might be a better choice to conduct the interview. In many cases, the exit interview provides the first contact between borrower and collector and it gives the collector an opportunity to emphasize the importance of keeping the account current. The person responsible for collection is in the best position to make this point strongly felt.

The interviewer must have full knowledge of the entire loan program, including benefits to which each borrower is entitled. Ideally, no student with an outstanding loan should be allowed to leave school without the opportunity for an exit interview, at which time any questions regarding the loan should be answered. At the end of the interview, there should be no doubt in the borrower's mind as to what is expected. Also, the person conducting the interview should be able to form an opinion about the borrower's attitude toward his or her loan; the occasion may present an opportunity to head off a possible delinquency. The interviewer must be informative and supportive, but must also maintain the aspect of an authority figure. The exit interview may set the tone for future dealings with the borrower.

Methods for Conducting Interviews

Because the purpose of exit interviews is to discuss with borrowers their financial responsibilities and to obtain updated information that may help in collecting the loan, every effort must be made to give each borrower an interview before he or she leaves the institution. This requires cooperation among the offices of the registrar, financial aid, and business. Exchange of information enables the person conducting the interview to determine the borrower's graduation date in order to schedule the interview.

NDSL regulations state that an institution must, if possible, conduct the exit interview on an individual basis. In such interviews, there should be an effort to achieve a favorable exchange between interviewer and borrower. Appointments often are not necessary and the borrower may choose the time. This "one-on-one" type of interview may be the most time-consuming, but it probably results in the greatest understanding on the part of the borrower.

Regulations allow group interviews if individual interviews are not feasible. For large institutions, the former may be better, for more time can be given to each group than could possibly be given to each individual. Also, some borrowers may raise questions that others would never have thought to ask. Careful preparation is necessary for group interviews to succeed. Appointments are required to keep the group size manageable and to know who will attend. Information about repayment schedules must be prepared in advance and special care must be taken at the interview's conclusion to gather necessary forms before borrowers leave.

Regardless of preparation, however, the success of an exit interview depends largely on how well the institution informs borrowers of the need for the interview. When the loan is granted, borrowers should be made aware of their responsibility to have an interview before leaving the institution. Other reminders include placing notices in student newspapers, making information available at registration, and cooperating with other offices to learn of expected separation dates to enable mailing postcards. Some institutions have been successful in placing "holds" on graduation until the interview has been completed.[3]

What the Interview Should Cover

Each loan program has unique terms and conditions regarding exit interviews that should be brought into the interview. It is also important to:

- Make sure the borrower fully understands all terms and conditions, especially that the loan must be repaid on a timely basis, as called for in the repayment schedule.
- Arrange a repayment schedule and agree on the date of first payment and frequency of each payment thereafter.
- Obtain clear agreement on amount bor-

a significant relationship between conducting exit interviews with dropouts and delinquency rates."

[3] The Comptroller General's report on NDSLs states that "There was no significant relationship between delinquency rates and school's methods for conducting interviews (i.e., individual versus group sessions). The finding suggests that the method of conducting the interview is not nearly as important as the actual conduct of the interview."

rowed, interest rate, and amount due for each installment. The notes should be available for inspection by the borrower in order to answer any questions.

- Have the borrower sign the repayment agreement and the truth-in-lending or disclosure form and give the borrower a copy of each.
- Review skip-tracing information, or at least make certain that someone other than the borrower is listed, with an address and telephone number.[4]
- Direct the borrower's attention to advantages of prepayments during the grace period, if one is provided, even though prepayments cannot be required.
- Explain to the borrower that he or she may prepay without penalty.
- Inform the borrower of importance of paying promptly or contacting the institution prior to due date if payment cannot be made.
- Be sure the borrower understands that collection staff must be informed of any change in name or address.
- Cover deferment, postponement, and cancellation provisions and acquaint the borrower with required forms, if applicable.
- Remind the borrower of any optional features included in the note, such as minimum monthly repayment, penalty charges, or collection charges.
- Inform the borrower of the billing system to be used and that statements will be sent or that coupon books will be provided.
- Cover any provisions that are unique to that particular loan program.
- Give borrowers any material that will help them better understand their responsibilities.
- Remind the borrower of the importance of good credit and let him or her know if the institution reports accounts to a credit bureau.

Borrowers Who Leave Without an Interview

Borrowers who fail to appear for their exit interviews, regardless of care taken to inform them about such meetings, present a serious problem. They cannot be ignored. The institution should (and for many programs must) provide them with repayment information by mail if the matching procedure described earlier under "Student Status Update" reveals that the borrower is no longer enrolled. In addition, a copy of each note must be included. In the NDSL program, two copies of the repayment schedule must be sent and the borrower asked to sign and return one copy. This is good practice for all loan programs. After this attempt, unless mail is returned, the institution may be considered to have fulfilled its requirements. However, good collection procedures dictate that the institution follow up on those borrowers who fail to return a signed copy of the repayment schedule, to impress the borrower with the importance of responding to collection requests.

If the borrower does not respond, the account should be placed on an equal-payment basis and statements should be sent at the regular time. A "hold" can be placed on all student records until the borrower signs and returns the repayment schedule, but institutional legal counsel should be consulted prior to such action.

Special Problems at Community Colleges

Community colleges are confronted with two special problems caused by borrowers leaving school; these can be minimized if the institution takes particular care to keep borrowers fully informed.

One problem stems from some students attending a community college simply to discover if higher education is right for them. They obtain loans to help cover the cost and, after one or two terms, may decide to leave. Such borrowers often obtain jobs for a minimal wage, which makes repayment difficult. In other cases, borrowers are unwilling to pay because "the money didn't buy me anything."

There are two possible ways of dealing with this problem. The first might be an institutional policy to provide some other type of financial aid for the student's first year. The second method is to emphasize the necessity to repay the loan regardless of the outcome of the schooling. If the borrower leaves the institution convinced of this obligation, delinquencies should not get out of hand.

The other community college problem involves borrowers who move on to a four-year institution and fail to submit student status forms to the community college. Borrowers are told in the exit interview that payment will not be required as long as they remain at least a half-time

[4] The Comptroller General's report indicated that institutions with lower delinquency rates also revealed a greater tendency to obtain the address of the borrower's parents than did other institutions.

student. What borrowers often fail to realize—or to accept—is that they must continue to submit certified student deferment forms until they graduate or again leave school.

This problem can be addressed by using the exit interview to strongly emphasize deferment requirements. If borrowers understand penalties of late payment, and that the loan can be kept current by submitting deferment forms, most of them are willing to comply.

Repayment Schedule

At one time, most lending institutions provided borrowers with an amortized repayment schedule showing dates, amount of principal and interest due, and the balance outstanding for each payment. Few loans were paid exactly as shown, and such schedules quickly became obsolete. In addition, this type of schedule was expensive and time-consuming to produce.

A viable substitute is to provide a repayment schedule that states when payment is to begin, frequency of payments, amount due at each payment, and any other information needed to abide by truth-in-lending (Exhibit HPSL/NSL-58) or disclosure requirements (Exhibits GEN-11 and GEN-12).

If loan repayment is to extend over a long period, it is wise to require a minimum payment like those provided in the NDSL program ($30 per month) or in the HPSL and NSL programs ($15 per month). This will help return money to the fund at a faster rate. Calculating a repayment schedule would then consist of finding the number of payments required and amount of interest to be charged. This information is needed for both truth-in-lending and disclosure requirements. (*A Guide to the Repayment of Multiple National Direct Student Loans*, published by the Office of Student Financial Assistance in the Department of Education (ED), provides necessary charts, which can be used for any loan program, for the calculation of 3%, 4%, or 5% loans. Exhibit GEN-13 demonstrates a method of repayment that can be used at various interest rates for loans that require payments larger than $15 or $30 per month, in order to pay the loan within ten years.)

The borrower should receive a signed copy of the repayment schedule, along with any other printed material that the institution feels might be helpful. Also, the borrower's account should be converted from "in-school" status to "out-of-school" or "repayment" status. The original repayment schedule should be placed in the borrower's file with copies of the original promissory notes (this assumes safeguarding the original promissory note in another location).

Converting Loans to Repayment Status

After the exit interview, and when the borrower has selected a repayment plan, the loan must be converted from "in-school" to "out-of-school" or "repayment" status. In a manual system, this usually means placing collection information on a 3 × 5 card to be used for billing purposes. This "tickler system" typically consists of a file box containing 31 tab cards (or one for each day of the month) and 12 tab cards for the months of the year. The file can be used as an auxiliary to the ledger system.

As the loan enters repayment status, pertinent information is placed on the card, such as:

- Name and address of borrower
- Date he or she left school
- Date grace period ends
- Billing frequency

The card is then used to record:

- Date payment due
- Amount due
- Date payment received
- Amount received
- Balance outstanding

The card then is placed in the tickler file in the month due. When that month arrives, daily index cards are used to separate daily activity.

Each day, the staff member responsible for billing checks the file for borrowers who must be billed. Such a system also calls attention to delinquent accounts because the 3 × 5 card is not moved until payment has been made.

If the institution is on a computer, the status code must be changed to reflect an out-of-school status. Addresses should be added or corrected, and repayment information entered.

When this conversion is complete, nothing further need be done on the account until time for grace period notices, if the loan program provides for a grace period.

Billing Process

All the care, time, and concern for detail devoted to the loan program up to this point are negated if the billing system fails. Because of the great volume of work required in billing, many otherwise adequate systems break down during this process and delinquencies begin. (The

Comptroller General's report on NDSLs indicated that "schools with lower delinquency rates were more likely to prepare bills manually than by computer," but manual preparation is too difficult for large institutions.)

A loan program that does not include regular and systematic billing cannot hope to receive timely payments or to convince the borrower that the institution will resort to more forceful collection activities. An effective, consistent billing system is essential to avoid collection problems.

In-House Billing Versus Billing Service

Institutions with automated billing and data processing equipment may wish to have their own billing system. Modern accounting machines and other processing devices provide flexibility not only to maintain accounts, but also to make adjustments such as revised repayment schedules and interest charge changes. If the institution's collection staff remains fairly stable and if the institution continues to provide adequate staff, it may be advantageous to do billing and collection work in-house. Borrowers usually have a closer relationship with the institution that provided their loans than with an outside billing service. Key factors in deciding whether an institution should do its own billing are its internal structure and the personnel that can be assigned solely to billing and collection of loans. The institution must be able to provide the systematic billing required by specific loan programs.

If inadequate staffing and lack of automated systems make in-house billing impractical, the institution may use a commercial billing service to improve and regularize the billing process. This eliminates the need to staff an institutional billing section and often provides for better and more consistent follow-up than the institution could do. However, it must be remembered that, even if billing agencies are used, the institution must retain responsibility for managing loan funds.

Success in using billing services depends on the institution. If delinquencies are allowed to get out of hand before the services of a commercial firm are obtained, an institution should not expect an immediate drop in its delinquency rate on using such services. The Comptroller General's report on NDSLs indicated that some institutions with high delinquency rates chose to use billing services in order to eliminate or alleviate the problem or simply to get rid of responsibility for servicing accounts. The reason for the high delinquency rate, then, was not poor loan management service, but the accounts' condition when placed with the service. However, most institutions that began using billing services before their delinquencies were out of hand were successful in retaining low rates.

In deciding whether or not to use a billing service, the following advantages and disadvantages should be considered:

In-House	Billing Service
Advantages	
Familiarity with borrower	Knowledge of loan program
Ease of adjusting accounts	Computer priority to loan billing
Accessibility to student records	Size of loan program no object
No need to relay information to a third party	Cost in direct relation to number of accounts
Possible cost savings if equipment and staff are available	Cost of program changes absorbed by service
Ability to match with registrar's records for student status	Billing likely to be more consistent
Ability to try different approaches (such as messages, coupons, etc.)	Required changes programmed more quickly
Disadvantages	
Cost of programming	Lack of access to borrower's records
Billing may not have computer priority	Dependence on information being relayed from institution

Staff turnover necessitates continuous training
Cost for small institutions
Cost and time of program changes
Institution must sometimes make decisions (such as acceptability of cancellations or deferments, eligibility for hardship deferments, etc.)
Cost for large institutions

Choosing a Billing Service

In choosing a billing service, care must be given to such considerations as service, cost, reports provided, solvency and reputation, and promptness of returning to the institution money collected from the borrower.

Essential to proper billing is familiarity with all provisions of loan programs. A responsible service must, therefore, know terms and conditions of all loan programs and be able to change as regulations dictate. Such knowledge is necessary to insure that accounts are not erroneously identified as past due when they are still in grace status, notices of payments due are timely, and delinquencies are readily identified.

Costs may vary somewhat among services, but competition is strong, with pricing usually a factor, and each service offers a slight variation in what it does. An institution should contact various services to discover what is available. (Readers are referred to NACUBO's publication *Contracting for Services*, Chapter Nine, "Billing and Collection," for more information on contracting for these services.)

Institutional Responsibility

Billing services act as agents of the institution, since the latter cannot abdicate its responsibilities to loan funds. The college or university must retain all pertinent documents for audit purposes, whether or not an outside billing service is used.

The January 19, 1981 regulations for the NDSL program include the following statements regarding the use of billing services; these should apply to all loans:

- A fiscal agent (billing service) may perform only ministerial acts.
- The billing service may not deduct its fees from the amount it receives from borrowers.
- The service may telephone and skip-trace, but if it does, it must bill the institution at least monthly for these services.
- The institution may not use a collection agency that is in any way controlled or associated with the billing service.

Grace Period Notices

The interval between termination of student status, or certain qualifying deferment, and commencement of the repayment period is termed the "period of grace." This period allows borrowers to become settled in a new location, to find a job, and to begin earning a living. This is also a time when borrowers may begin to realize the responsibilities they have taken on themselves regarding their loans.

During the grace period, repayments need not be made and interest does not accrue. A typical grace period ranges from six to twelve consecutive months, which are not to be interrupted by periods of additional student status. Institutional loans, however, are different; they do not have grace periods. Instead, a specific due date is set when the loan is obtained; if interest is charged, it is usually from the date of disbursement.

Each step in due diligence is important. Keeping the loan responsibility constantly before borrowers helps prepare them for the day when the first payment is due; it is logical, therefore, to contact borrowers during the grace period. Because interest does not accrue and payments are not required during this time, contacts act solely as a reminder of obligation and as an opportunity for borrowers to make payment before interest begins. For institutions, contacts provide a chance to make sure an address is correct [illegible] it is time to bill for the first payment.

Not more than three months should pass without contacting the borrower. Therefore, 90 days into the grace period, the first contact should be made.

In this contact, borrowers should be reminded of their rights and obligations, including:

1. That they have received a loan, which must be repaid on a timely basis as called for in their repayment schedule.
2. Their responsibility to inform the institution immediately of any changes of name and/or address.
3. Full amount of the loan, including interest rate.
4. Date when first payment becomes due and the amount.

5. Their responsibility to contact the institution prior to due date of any installment if payment cannot be made.

6. Their rights to deferment, postponement, and/or cancellation, as well as their responsibility to submit timely certification of such rights, if applicable.

7. Their right to accelerate loan payments without penalty.

8. Any optional features that the institution has inserted in its note, including the minimum monthly repayment provision, total costs of collection chargeable to the borrower, and penalty charges.

Information required for this contact must be given even if the borrower attended an exit interview. Many borrowers attend exit interviews out of obligation rather than to obtain information; therefore, when the same information is received three months later, it comes as a refresher and is more easily absorbed.

Information provided in a mail exit interview is the same as that required in the 90-day grace period notice. For NDSLs, if a mail exit interview is required, it may take the place of the 90-day notice. Further, because of time required to make a computer match and prepare information, it may already be about 90 days into the grace period when the exit interview information is sent.

For loans with nine-month grace periods, the second contact should be approximately 180 days from the beginning of the grace period to remind the borrower when the grace period expires. This again presents an excellent opportunity to suggest interest-free payments. (Loans with six-month grace periods would not receive this notice.)

Final contact should be made about 30 days before due date of the first payment to notify the borrower of this date and the amount of principal and interest due at that time. This contact could be in the form of, and thus take the place of, a first statement. Subsequent advance notices need be sent only ten days before payments are due. The promptness of the first notice and the emphasis placed on it are extremely important. (The Comptroller General's report on NDSLs mentioned that a characteristic most associated with delinquencies was the borrower's failure to make the first payment on time.)

If the institution finds that a borrower's address has changed, it should immediately implement procedures to locate the new address. Normally, this can be accomplished by information contained on the personal and confidential information form (Exhibit GEN-1). If a new address cannot be located from such information, a commercial skip-tracing service should be contacted.

Grace period notices serve another important function in reminding borrowers that the institution plans to collect loans and that its program will be administered in a businesslike manner.

Billing Frequency

With the exception of institutional loans, which usually are due in a lump sum, most programs give an institution an option as to frequency of billings. NDSLs allow monthly, bimonthly, or quarterly billings. HPSLs merely state that payment must not be less frequent than quarterly, unless the borrower becomes delinquent, in which case billing must be monthly. This provision is also proposed for NSLs.

Although the decision seems simple, an institution must give it careful attention. If cash flow is a problem, monthly payments may be a solution. Billing for monthly payments can take at least three forms: statements can be prepared and sent each month, a group of 12 payment cards can be prepared and sent to the borrower yearly, or a coupon or payment book can be used to cover total repayment. When either of the last two methods is used, care must be taken to follow up if payment is missed. If the institution cannot handle the large volume of work created by monthly billings, some other frequency should be used.[5] Frequency of billing may have little effect on delinquencies, but promptness and consistency of billing does. No institution can expect a borrower to remain on time in making payment if billings are late in arriving.

Statement Format

A statement should, at the least, show the borrower's name, inform him or her of the loan being billed for, the date payment is due, to whom the check is payable, and where it should be sent. Other information could be amount borrowed, amount paid, balance of the account, date of last payment, and amount needed to pay

[5] According to the Comptroller General's report on NDSLs, 70% of students are billed on a quarterly basis. However, the report also said that "there was no significant relationship between the frequency of billing and the delinquency rate" although "schools with the best collection record were more likely to send quarterly bills."

the account in full. For institutional use, the borrower's account number should also be shown. The statement should be designed with two parts to allow the borrower to keep the information portion and return the other half with payment. If the statement is designed correctly, a window envelope may be used for mailing and a return envelope may be enclosed to facilitate return of the institution's portion. Return of this portion is important in making sure that payment is credited to the right account.

By using a computer, an institution can provide a detailed, comprehensive statement; if a manual system is employed, an institution may not be able to provide such comprehensive information (Exhibits GEN-14 and GEN-15). However, continuous form statements can be purchased that include a return envelope in the set. When designing a statement form, it should be noted that the more the information that is provided, the less chance there is that the borrower will query the institution. Contact is important, but at this point the institution is seeking payments rather than questions. However, if a question does arise, a quick and careful response indicates to the borrower that the program is being administered in a businesslike manner.

Following Up on Late Payments

Sometimes a payment is late because a borrower misunderstood the terms of his or her loan. This kind of debtor usually does not present a difficult collection problem, because an explanation of terms often brings immediate payment. However, such an event could warn of a lack of good preloan counseling, which should not be overlooked. Once again, a speedy response to the misunderstanding may help avoid future problems.

Many loans become delinquent because debtors are careless, indifferent, or inefficient in handling their debts. A sign of this kind of borrower is patternless delinquency—the loan payment being made anywhere from a week to four weeks late.

Again, a reminder is usually all that is needed. The 15-day, past-due notice serves this purpose. However, if the same debtor uses the "overlooked" excuse two or more times, he or she should be telephoned or sent a courteous but firm letter explaining the importance of prompt payments (Exhibit GEN-16). If a negligent debtor is allowed to continue being late, his or her account will soon become chronically slow.

A revision of the repayment schedule is sometimes a way of successfully effecting collections. A borrower may be encountering temporary financial difficulties, which may be offset by decreasing current payments; these can be increased again at a later date in accordance with the borrower's financial ability. When current payments are decreased, the borrower remains responsible for accrued interest.

Once an account becomes past due, the institution should consider withholding all further services (such as transcripts, letters of recommendation, alumni materials, publications, and placement information) until the account has been brought current or until satisfactory arrangements have been agreed on. However, institutions may wish to release transcripts to a prospective employer, since without a job a borrower may have difficulty bringing the account current. Institutional legal counsel should be consulted prior to taking such actions.

Each loan program specifies due diligence requirements as to the interval between past-due billings. When a 15-day, past-due contact is required, the next notice typically is sent out between 30 and 45 days. This notice may be in the form of a past-due statement with a message, or it could be a letter or telephone call (Exhibit GEN-17). Regardless of the means of contact, the borrower must be made aware that the institution intends to pursue collection in a thorough, businesslike manner.

A third past-due notice is sent between 60 and 70 days. Because of the serious condition of the account at this point, ED requires the use of telephone, Mailgram, or other written communication that demonstrates a response rate higher than that for routine mail.

The cost of using Mailgrams is considered prohibitive by many institutions. If a college or university transmits tape to tape, the cost runs about $2.50 each; however, Mailgrams command respect and borrowers usually respond.

There are less expensive types of written communication that seem to result in a high response rate. Certain firms offer overnight delivery at a cost of less than one dollar each for transmission, which includes a letter, and postage, and in some cases, a return envelope (Exhibit GEN-18). Such firms can be found in the yellow pages of the telephone directory or by contacting other institutions. An example of another letter that may bring a higher response rate is shown in Exhibit GEN-19. However, such letters can be used *only* if accounts are being reported to a credit bureau.

If the account becomes 75 to 105 days past due, the institution should send a final demand letter (Exhibits GEN-20 and GEN-21), which must inform the borrower that the loan will be referred to the institution's collection department, or for litigation, or to a collection agency, if appropriate payment or form is not received within 30 days of the date on the letter. If there is an endorser of the loan, he or she also should be made aware that the account is past due.

If an institution chooses to accelerate a loan, it must give the borrower advance notice of that action. This written notice may be given independently or in any demands for payment required by regulations. In any event, if an institution accelerates a loan or intends to do so, it must say so in writing. To "accelerate a loan" means that the entire unpaid indebtedness, including accrued interest and any penalty charges, is made immediately due and payable. The borrower must be given sufficient time to respond to this final demand, but once he or she has been informed, there should be no hesitation for the institution to act. Failure to act on demands weakens the institution's position, reducing its credibility, and does not help the borrower or the loan programs.

Approximately 15 days after sending the final demand letter, the institution should contact the borrower by telephone to discover if his or her lack of response is because of financial hardship, such as that due to prolonged illness or unemployment; if such is the case, the borrower should be given a hardship deferment, contingent on completion of proper documentation. This call should be made by a person skilled in telephone collections.

Following Up When a Billing Service is Used

Loan billing firms differ in their services to institutions beyond the normal approach of sending three past-due statements. Some merely continue to bill each month, while others end the billing except when another payment is due. Most provide a list of delinquent accounts at a certain period of time, usually when the account has reached the 75- or 120-day past-due stage.

The institution must determine what the continued course of action will be, and for this purpose should carefully review the accounts listed. Some borrowers make partial payments, but not in sufficient amounts to keep their loans current. These borrowers may need an adjustment in their repayment schedule to an amount that can be paid on a current basis. Others reply to the final demand letter, which should be sent by the institution, and each one who responds should be treated individually, depending on the reason for nonpayment. Others continue on a nonpaying, no-response basis, and must be given stronger treatment. Alternatives are discussed later in this chapter.

All payments received by the institution must be reported to the billing service in order to update the account. When the account becomes current, the billing procedure is again in place, and it is hoped that the borrower will remain current.

Interrupting Payment Process

Most loan programs provide for some kind of cancellation, deferment, or postponement. Such provisions are built into the terms of each loan and are designed to extend (defer) length of repayment, forgive (cancel) a portion of the loan in exchange for certain performed duties, or to delay (postpone) billing until completion of such status before requiring the borrower to submit proof.

Exceptions are institutional loans that typically do not provide for cancellations, deferments, or postponements, although they may provide for renewals. The latter, which usually require the borrower to negotiate a new due date, pay accumulated interest, and then sign a new note, are similar to but not quite the same as deferments or postponements provided for in other programs, because renewals extend (or delay) the period before the loan is due. Cancellations, deferments, and postponements are legal means of keeping a borrower's account current. For this reason, institutional staff should become familiar with each possibility. In all instances, excepting the hardship deferment (which does not need to be certified), each case must be documented by the borrower, certified by an official associated with the eligible activity or disability, and forwarded to the lending institution for approval.

Cancellation

Cancellation may be granted according to certain provisions contained in specific loan programs. (These provisions are presented in detail in other chapters.)

In general, portions of the loan can be cancelled if the borrower works for specified periods in certain types of work. Depending on circumstances, cancellations range from 10% per year to 100%. Although payments continue to come due, they are, in effect, cancelled for periods in which the borrower qualifies for cancellation. This is so even when the amount cancelled is not equal to the amount due, as in the case of minimum loan payments.

Deferment

Deferments are granted on the basis of the borrower's qualifications, according to provisions of each loan program. (Because provisions differ, they are presented in other, appropriate chapters.) Usually, during deferment, payments are not due and, in most cases, interest does not accumulate and the repayment period is extended by the length of deferment. The borrower is responsible for initiating a request for deferment (forms can be obtained from the lending institution), which must be certified by an official at the place that may be the cause of the borrower's eligibility for deferment. The form is then returned to the lending institution for approval. Since deferments are a legal means of keeping an account current, institutions should urge eligible borrowers to submit such forms at proper times, which are (1) when the first payment is due following the borrower's entrance into such status, (2) immediately on any change in status, and (3) at least annually as long as the borrower remains in eligible deferment status.

Postponement

A borrower whose status qualifies him or her for cancellation or deferment, but who normally would be required under terms of the note to make payments before the end of the eligible year, may request that payments be postponed. Such a request allows the institution to accumulate payments until the end of the eligible period. The borrower is then required to submit a cancellation or deferment form. If he or she meets the qualifications, payments are either cancelled or deferred and the borrower's account remains current.

If, at the end of the postponement period, the borrower does not qualify for cancellation or deferment, the postponed payments are due. As an example, a borrower who begins teaching in September and who normally would have payments of $45 due each September, December, March, and June, could have the payments postponed until the end of the teaching year in June. At that time, the borrower would be billed for $180 to cover the four postponed payments. If the borrower does not qualify for cancellation, the $180 is due as of June 1. It is recommended that the institution not consider such an account past due unless, of course, the $180 is not paid by the end of June. If the borrower is qualified for cancellation of only $150 rather than $180, the remaining $30 would be considered deferred and the account would remain current.

Most loan programs make reference to postponing only when the borrower can qualify for cancellation. However, postponements can also be used for deferments. Rather than requiring a deferment form monthly, bimonthly, or quarterly, granting postponement to the end of a period (never longer than one year) becomes a timesaver to both institution and borrower.

Changing the Payment Schedule

There may be times when a borrower is not able to comply with repayment terms, as specified in the note, because of hardship. When this happens, the borrower may apply to the institution for a revision of loan repayment. Such revisions normally are referred to as "good cause," "hardship," "forebearance," or "extraordinary circumstances" deferments.

A "statement of financial condition" form (Exhibit GEN-22) should then be provided to the borrower with a letter of explanation (Exhibit GEN-23). When returned, the form, or application, should be reviewed by the institution to determine merits of the request. The institution may decide to grant a full deferment or a partial deferment by requiring smaller payments, or it may decide that a deferment is not warranted. The borrower should then be notified of the institution's decision (Exhibit GEN-24). (Such deferment is not permitted under HPSL-NSL statutory authority. However, forbearance is permitted.)

This type of deferment should not be granted for periods longer than six months. If the borrower's situation is the same at the end of six months, a new request should be submitted. If a deferment would extend repayment beyond the maximum time allowed by the loan program, it is usually necessary to notify the Secretary of Ed-

ucation. (Extension of the ten-year repayment period is not authorized under HPSL and NSL programs.) Interest continues to accrue during such deferment and must be paid by the borrower; arrangements for this should be made when the deferment is granted.

Collection Process

After the institution has sent a borrower its final demand letter, and if it has been unsuccessful with a telephone call, action must be taken as stated in the letter. This usually involves one of three alternatives: the institution continues to pursue collection, it uses a collection agency or firm, or it resorts to litigation (presented in the chapter, "Suing a Defaulted Borrower").

In-House Collection Versus Outside Collection Firms

The institution must carefully determine whether to do the work internally or to hire an outside collection firm. Some possible advantages and disadvantages of each method are shown in the table below.

An institution must have faith in its ability to collect loans if it is to be successful. Because the cost of collecting an account is not as important to most institutions as success in collecting (the need to keep default rates within acceptable limits), an institution often pursues a small account much harder than would an outside collection firm. As an example, if the firm is working for 30% commission, it cannot afford to spend more than $30 in collecting a $100 account. To the institution, collecting the account is more important than concern for the $30.

Those institutions that use collection agencies or firms feel that the institution cannot collect the same amount of money for the same cost. This seems likely, since usually only the NDSL program allows an institution that performs its own collection work to charge a portion of those costs to the fund. (The HPSL and NSL programs allow certain internal collection costs, as approved by the Secretary of Health and Human Services.) However, all loan programs allow the charging of reasonable costs of using collection firms to the fund. Considering cost of space, equipment, long-distance telephone calls, salaries, fringe benefits, and other items involved in attempting

In-House	Outside Collection Firm
Advantages	
Familiarity with borrower	Third-party effect
Knowledge of loan programs	Referral to borrower's locale
Willingness to work with borrower	Cost contingent on collection
Size of debt no object	Experienced in dealing with hard-core debtors
	Affiliated firms give broad coverage
	Know when legal action is advisable
	Attorneys available throughout world
	Can locate debtor's assets
	Can more easily skip-trace debtor
Disadvantages	
Inexperienced in dealing with hard-core debtors	Sometimes unfamiliar with loan provisions
Out of borrower's locale	Not always willing to work with borrower
Lack of third-party effect	Some accounts too small
Cost	Institution must learn firm's operations
Space required	Possible unethical or illegal practices
Time consumed	
Inability to locate debtor's assets	
Skip-tracing more difficult	

to collect—and that costs are there for all collections attempted, rather than being contingent on collection—the overall cost of in-house collections seems to be greater than the standard one-third contingent fee of outside collection firms.

Many institutions compromise by doing both. For example, after the final demand letter, an attempt is made to collect the amount in-house. If there is no success after a reasonable period (approximately 90 days), the account is referred to an outside firm.

Outside Collection Firms

When considering a collection firm, references should be sought from institutions that currently deal with the firm. Such queries preferably should be made by telephone—as one may obtain a more candid answer this way than in writing—for opinions on the firm's performance. Persons have varying expectations of what an outside collection firm should do; for this reason, one institution may not particularly like a given firm, while another reference may speak highly of it. In such a case, it is best to contact several references before making a decision.

The capability of a firm to collect a high percentage of accounts usually depends on how much work the institution put into the accounts before referring them. That is, the same firm could recover 35% of the accounts from one institution and only 20% from another and be working equally hard at each job. The only way an institution can gauge the firms' effectiveness is to use more than one and compare them. The institution should not hesitate to let a firm know how it compares with others.

There are at least three different kinds of outside collection firms. Each has its advantages and disadvantages.

Percentage-commission collection agencies. Most collection agencies charge a percentage based on money collected. As an example, if the institution has agreed to pay 30% commission, and the agency collects $100 of the $500 referred, the agency is entitled to $30; the fee is contingent on collection. Most collection agencies have arrangements with attorneys around the country who can be used (only with the institution's approval) if litigation should be necessary. Usually the fee rises for litigation.

Because competition is strong, institutions should be able to contract with a firm for about 33% on first-placement accounts. Some agencies accept second placements (second attempts to collect through an agency) and litigate accounts without raising the fee; however, standard practice is to charge a 50% fee for such activities.

Flat-fee collection agencies. These agencies charge a flat fee for collection. Usually, a contract calls for an up-front payment, which guarantees a certain recovery. As an example, an agreement might have an agency collecting three times the cost of the service; in another contract, the guarantee might require collection of a certain number of accounts before an additional fee is levied.

Another type of flat-fee agency is one that charges the institution a fee when the account is collected in full. A typical agreement sets a fee before collection work begins, and if the agency collects only a portion of the amount due, it is not entitled to its fee.

Flat-fee agencies quite often have borrowers respond directly to the institution. In most cases, this causes increased work for the institution, but usually the fee is lower than that of a straight-commission agency. Some flat-fee agencies provide legal help, but most do not.

Law firms. Law firms that specialize in the collection of delinquent student loan accounts employ, in addition to lawyers, collection personnel who can skip-trace and locate assets. The number of law firms engaged in collections for colleges and universities is small, but growing.

Law firms' methods of operation before litigation is similar to that of collection agencies in that they use letters and telephone calls in an attempt to get the borrower to pay. However, if litigation is necessary, a law firm usually litigates an account at an earlier date than would a collection agency. Many law firms do not increase their fee when they sue.

Most law firms' fees are contingent on collection and are usually not more than that charged by a collection agency. Some law firms will also contest the dischargeability of a debtor in bankruptcy if the institution wishes them to do so. Fees for this type of work are at an hourly rate to be agreed on between the institution and the law firm.

Bids and Contracts

Requiring bids from outside collection firms is becoming common in large school systems. Institutions determine criteria, request bids, and select firms based on bids. For small school systems, bidding is not normally done. If not, the

institution should review what the firm has to offer, contact references, and then determine which firm most nearly meets the school's expectations.

Most firms have standard contracts (Exhibit GEN-25), but the contract should be worded to protect both the institution and the collection firm. The contract should be dated and signed by both parties and it should be reviewed periodically.

The contract should clearly state that loans remain the property of the institution and that all information and activities concerning the accounts will be accessible to the institution when needed. Institutions should be able to remove their accounts from the firm quickly if not satisfied with the service.

Federal regulations for the NDSL program require that a collection agency be bonded for the average amount of NDSL funds collected by the agency each month or that the agency deposit collection funds in the institution's bank account immediately on receipt. This protects the institution, since the institution always retains responsibility for these funds.

Institutions may wish to use these requirements for all loan funds for which an outside collection firm acts as the institution's agent, and require that the firm be bonded for the average collected over two months. This period is suggested because it would usually be at least one month before an institution discovered that a firm was experiencing financial or other difficulties. The date of receipt of funds by the firm must be treated as though the institution received the funds that same date. (For further information, see NACUBO's publication *Contracting for Services*, Chapter Nine, "Billing and Collection.")

Using a Collection Firm

When a firm has been chosen, the institution must determine which and how many accounts will be sent. One may begin with a "test" group, in order to learn how they are to be submitted and whether the firm is going to be successful in collection.

If an institution uses more than one firm, similar accounts must be sent to each in order to compare them fairly. A true comparison cannot be made if, for example, only inner-city accounts go to one and out-of-state accounts go to another.

The decision also must be made as to whether to have the firm collect only the amount currently due or to accelerate the loan and ask for the total outstanding balance. Each has its advantages and disadvantages. If the loan is accelerated (the borrower must have been told before this is done), one need not worry about adding new payments as they come due, except for accrued interest. Also, once the account is collected, it is paid in full. Nevertheless, if charges are based on amounts collected, the fund suffers a greater loss because commissions are higher. For example, if a borrower has a $3,000 loan and the entire amount is referred, the firm would be entitled to $1,000 if the charge is 33%. If only $270—the amount past due—is referred, the fee would be $90.00 and the account would be returned to billing.

Most firms require only basic information (such as borrower's name, loan number, amount, and address), but the more information submitted, the greater the probability of success without involving the institution's time. The personal and confidential information form (Exhibit GEN-1) is helpful, as well as the final demand letter (Exhibits GEN-20 and GEN-21). Once the institution feels comfortable with the firm, any account ready for action should be sent.

Monitoring a Collection Firm

Institutions should continually review the cost and performance of firms they are using. If collection percentages drop, if checks are not being submitted to the institution on a regular basis, or if accounts are held without action being taken, consideration should be given to dropping that firm and using another. It is important to remember that the firm is working for the institution, and not vice versa. As an example, if a college or university should wish to recall accounts, that provision should be clearly indicated in the contract.

Some method is required to gauge the firm's effectiveness. This is usually accomplished by agency and institutional reports, which are described below.

Agency Reports

The first report to be received from an outside collection firm should be the *acknowledgment report*. All the accounts submitted by the institution should be listed on this report; it is important to be sure that all dollar amounts are correct.

Second is the *remittance report*, which should list all accounts on which collection has been

made for the last month. The date of collection, borrower's name and account number, amount collected, amount of commission, and amount due the institution or agency should be shown. This report should be monitored to be sure the commission is in line with the contract.

The third report should be a *status/inventory report*. This document is used by the institution to check action on individual accounts and to make sure that records of both agency and institution agree.

Fourth is a "*close and return*" *report*, on which the collection firm should indicate reasons that can be used by the institution for requesting write-off or for assigning the loan.

These four reports should be required from all outside collection firms. While formats may change, the same information should be provided.

Another document provided by some firms is a *date analysis report* (Exhibit GEN-26), which gives an analysis of the placed accounts by month. The totals indicate the agency's success in collecting.

Institutional Reports

The institution can also monitor outside collection firms by its own reports. At least monthly, the institution should produce an inventory list to be checked against the firm's list. Reconciling factors include accounts assigned by the institution but not yet accepted by the firm, and payments received by the firm and not yet received by the institution.

The college or university may generate a quarterly report showing placements, collection, and returns. Also, beginning balances and ending balances may be shown to help the institution monitor the amount of money in accounts at each firm. Such information allows calculation of a collection percentage so that comparison among firms is possible (Exhibit GEN-27).

An annual report can be produced from the four quarterly reports. As this report covers a longer period, it gives a better overall picture of each firm's ability. It also indicates whether inventory is up or down at each firm (Exhibit GEN-28).

The most beneficial report may be a three-year summary that provides an opportunity to review the effectiveness of all agencies (Exhibit GEN-29). This report should be used in determining the capability of a particular firm to collect. All figures are cumulative from the first referral up to the date of the report. Collection percentages are based on total collections as compared to total placements.

If various reports show one falling behind the others, the institution should confer with that firm to discover why, and a reasonable period should be allowed for the firm to bring its percentages up to those of others. If it fails to do so, the institution should consider withholding further business.

When outside collection firms are used, they should be a part of each institution's due diligence procedures. Letters, like the one shown in Exhibit GEN-30 help to check the collection firm's effectiveness. If chosen wisely and monitored carefully, collection firms can help to recover seemingly lost doliars (see Agency No. 5 in Exhibit GEN-29, which, although strictly a second-placement agency, was able to collect 12% of assigned accounts over the years it was used). Even if a college or university uses in-house collections, an outside collection firm may be a good final step.

In-House Collections

If an institution plans to do its own collections, it should wait no longer than 30 days after sending the borrower the final demand letter before taking further action. Using the same list as that used for the letters, files should be pulled on borrowers who gave no response and such accounts should be transferred to a "collections" section.

Careful consideration must be given to the type of person hired by the institution as collector. Such a person should be very persistent, able to tolerate verbal abuse, slow to anger, and one who enjoys succeeding at a seemingly impossible task. The collector must be fully aware of all rights and obligations of borrowers under each type of loan program. Collectors should be compassionate, but also, be aware when a debtor is attempting to play on their sympathies. Above all, a collector must remember that success or failure of the job hinges on the ability to collect.

By the time student loans come due, some borrowers are hard-pressed and overextended, and are reluctant debtors. Thus, they may sort through their bills, deciding which will be paid first and which must wait. The task of the institution's collection department is to press hard enough for payment that the debtor will not gamble on the consequences of ignoring the

student loan. This generally is accomplished either by letter or telephone.

Correspondence is by far the most popular method of collecting overdue accounts; experience has shown that a skillfully written letter, sent at exactly the right time, is usually the most effective and least expensive collection method possible.

On transfer of an account to the collection department, at least two letters should be sent before the telephone is used. Such letters can be standard documents sent by clerical staff. Many accounts may be brought up to date in this way and returned to the billing department without time-consuming effort on the part of a collector (Exhibit GEN-31 (a) and (b)).

Telephone Collections

Good collection management is flexible, using collection channels that are best suited to a specific debtor. Often the best method is the telephone, which has four advantages over a letter:

1. *It demands attention.* A debtor who can ignore a letter seldom can resist answering the telephone, even if he or she suspects the nature of the call.

2. *It demands immediate response.* The debtor must make a promise, give an excuse, or offer an explanation. Thus, even if the call fails to bring in any money, it provides a firm talking point for the next collection effort.

3. *It saves time.* In a few minutes the collector may discover problems and smooth over difficulties that could take weeks of correspondence to resolve.

4. *It displays the institution's determination to collect.* That the institution has taken the trouble to make a call, especially a long-distance call, impresses the debtor with the importance attached to the delinquency.

Telephone collections require advance planning. The account should be assigned to a specific collector so that if more than one call is required, it will be made by the same person. The collector should have a good voice, a strong personality, and be tactful but firm. A little experience can help a collector become systematic in making calls. Adhering to the seven general rules that follow can help avoid errors and cope with situations that tend to recur.

1. *Assemble information ahead of time.* Before using the telephone, gather all available information on the delinquent account. This should include all data on previous delinquencies (exact dates and amounts), records of all attempts made to collect the present debt, and any response the debtor may have made. This should be assembled for immediate reference during the conversation.

2. *Check identity of the party reached.* Be sure the right person is on the line. Identification by last name only is not enough. Beginning a collection appeal to the wrong person may make it impossible to ever contact the debtor.

3. *Use titles.* Use such titles as Mr., Mrs., Dr., and Judge when conversing with debtors. This underscores the seriousness of the matter at hand, it discourages intimacy, and it subtly flatters.

4. *Get person's complete attention and keep it.* Give the borrower a chance to reply with something other than yes or no to be sure they are paying attention.

5. *Assume the response desired.* Whether or not the call is successful depends largely on how questions are worded. Always phrase questions and demands positively so that it is easier for the other person to go along with them—to act as the institution wishes—than to resist them. Leave the debtor as little room to maneuver as possible. For example, do *not* say "Will you put a check in the mail on Tuesday?" Instead, say "I will mark my records and expect your check on Wednesday." Do *not* say "Would you give me your employer's name, please?" Instead, say "Who is your employer?"

6. *Stay in control of the situation and avoid arguments.* Establish the purpose of the call, set its time, and control the conversation. Do not become defensive with the debtor. Above all, avoid being drawn into argument.

7. *Get specific promises and follow them up.* Obviously, money cannot be collected over the telephone. An oral commitment from the debtor to pay is the best that can be achieved; this commitment must be as specific as possible. If the debtor says "Okay, I'll get it to you in a few days," chances are it will be forgotten the moment the telephone is hung up. Name a specific date and insist on a specific promise. Record the promise and date, and if the debtor fails to pay as promised, call again immediately. (See Exhibit GEN-32, a collection flow chart to make sure all steps are followed. All possibilities lead to a payment arrangement and follow-up on that agreement. *This is important.* Failure to contact

a borrower after a promise has been broken will certainly lead to future broken promises.)

A useful tool to have during the telephone call is a "loan collection guide." It should be designed such that the borrower's claim, promise, or statement can easily be seen on a "tab"; when the debtor uses the claim, promise, or statement, the collector can quickly turn to that page for responses. For example, if the borrower claims that payment was made, three possible responses that could be listed under that statement in the guide are "How was payment made?" "When was payment made?" or "How much was paid?" The guide can be expanded to meet changing situations.

Inevitably, some collection efforts fail. With each failure, the institution must choose between using a collection agency and litigation. If, finally, an account must be written off or defaulted to the federal government, it is necessary to show that due diligence was performed. The collector should keep accurate records of all telephone calls, correspondence, and personal contacts. It is also necessary to document the amount collected through in-house collections. If loan funds are charged for collection costs, proof of collection is necessary to justify charges.

Pursuing Lost Borrowers

Collecting student loans is difficult even when the debtor's address is known. When the debtor's location is not known, the job becomes infinitely more difficult. Nevertheless, continued mailings to the same address after it becomes evident that the borrower (or endorser) no longer resides there is not due diligence.

Regardless of early precautions taken and information obtained while a borrower was in school, some borrowers become "skips." A debtor is classified as a skip when he or she cannot be found at the address given. Tracing such a debtor can be complex and expensive, involving much ingenuity, imagination, and—above all—time. Because of this, the institution should consider carefully whether it is willing to do its own skip-tracing. It is a mistake to commit time and resources to skip-tracing at the expense of proper attention to current or past-due accounts with known addresses. Therefore, the institution may wish to hire a commercial firm for this job. If a college or university chooses to pursue its own lost borrowers, the section below may be of help.

Skips can be divided into two general classes. First, there are those borrowers who intentionally try to cheat the institution by becoming skips. They take great pains to cover their tracks, reacting to inquiries with lies, trickery, or evasion. In such cases, the skip-tracer is forced to disguise tracing efforts.

The other class of skips, and by far the largest, is composed of those debtors who are not intentionally avoiding their obligations, but who, when moving, have forgotten to leave forwarding addresses. If these skips hear nothing more from creditors, they become more and more forgetful and their debts seem less and less obligatory. In tracing them, it is best to be straightforward, telling the references contacted—such as relatives, former employers, or neighbors—exactly what is desired, such as the name of the institution and the fact that the student's name and address has been lost, and there is a need to contact him or her (Exhibit GEN-33). Skip-tracing should always begin with the premise that the skip is unintentional. However, whether or not a skip seems to be intentional, an institution should always proceed with discretion. It is easy to involve the institution in a lawsuit by the use of unethical or unlawful means to contact or locate a debtor.

The most obvious place to begin searching for information about a debtor's location is in institutional files. If the student completed a personal and confidential information form (Exhibit GEN-1) each time he or she applied for a loan, the files should contain several sources of information. In addition, there are financial aid, registrar's, and alumni records (Exhibit GEN-34).

Success in skip-tracing is contingent on information obtained. Following, in order of priority, are data considered important in locating "lost" borrowers: parent's name and address, parent's employment, other relatives' addresses, spouse's employment, and borrower's employment. The more information provided, the greater the probability of success in location.

The institution should also try to find the borrower's telephone number through checks of directories or with information operators in the city or town of the borrower's last known address.[6]

[6] The Comptroller General's report on NDSLs revealed the following facts about skip-tracing: The Educational Testing Service study requested officials to assess the effectiveness of several techniques for locating delinquent borrowers.

When the borrower is located, he or she must be contacted. The best method of collecting the debt is probably to telephone to make arrangements for settlement. The approach should be courteous, keeping in mind that the institution has a legitimate debt to collect. The caller should be definite about how and when payments should be made. In most cases, the debtor will cooperate. If contact cannot be made by telephone, a letter can be used (Exhibit GEN-35).

Litigation

After all other attempts at collection have failed, the institution should consider legal action against both debtor and endorser (if any). If such action appears necessary, the business officer should not hesitate to approve the required legal steps. Delaying inevitable action does not help the borrower, endorser, or loan fund.

The purpose of the lawsuit is to recover money due the institution under terms of the promissory note. This action is often referred to as "suing" the debtor. The legal basis for such action is contractual, since promissory notes are contracts.

Generally speaking, only debtors with assets are sued. A recommendation to seek legal action often is made by the collection agency handling the delinquent account, the law firm attempting to collect, or the institution's attorney. In any case, the institution must give approval to proceed.

Some administrators fear that alumni relations will be hurt if the institution chooses to litigate against delinquent borrowers. Their concern, of course, centers on alumni donations and the fear that contributions would be reduced if the institution were to take alumni to court. However, most administrators realize that former students who are past due in making loan payments are not going to contribute to alumni funds and more alumni are becoming aware of the disastrous effect delinquencies have on an institution's ability to provide loans for new students. (Cooperation between the alumni office and the collection office, whereby addresses are provided to the latter, could result in fewer borrowers getting to the point of litigation.) Finally, some loan programs *require* litigation under certain circumstances. (See the chapter on "Suing a Defaulted Borrower" for more information on this subject.)

Uncollectible Loans

All institutions experience the problem of uncollectible loans, despite due diligence and all the care taken to insure against them. It must be remembered that most student loans are made to borrowers who have no assets, from whom an endorser cannot be required, and are made on the basis of need rather than credit worthiness.

Most loans that are deemed uncollectible are written off against the fund from which the loan was made. HPSLs and NSLs, to be written off against their respective funds, must receive approval from the Department of Health and Human Services (DHHS). In such cases, the institution loses its portion of the fund (usually 10%) and the federal government loses the remainder of the fund.

NDSL accounts, rather than being written off, are assigned to the government for collection. These loans are then treated like a cancellation on the institution's book and all further collection attempts are stopped. (See chapters on specific loan programs for additional information.) The institution gives up all rights to an NDSL account when it is assigned. Therefore, even if collection should appear possible after assignment, the most the institution can do is inform the ED regional office responsible for the collection.

Write-offs, on the other hand, remain the property of the institution, which may continue to pursue collection in some manner. At this point, collection is normally limited to holds on records, since other types of collection have not succeeded. It is hoped that eventually the debtor will want a transcript or will want to return to school. The loan's having been written off does not eliminate the institution's right to require payment before granting a student's request.

Reports

Past-Due Lists

Monthly past-due lists, which show all loans on an individual basis, should be part of every

including the federal skip-tracing service, parents or guardians, alumni offices, college placement offices, driver's license agencies, armed forces, merchants' retail credit associations, and schools to which grade transcripts had been sent. Fiscal officers reported that the most effective method for locating delinquent borrowers was contacting their parents, with 72% stating that such contact was fairly or very effective. The next most effective means was contacting the alumni office (38%), followed by contacting schools to which transcripts had been sent (31%), the armed forces (25%), the federal skip-tracing service (22%), and driver's license agencies (10%).

loan collection function. These lists, along with reports that can be generated from them, can be used to gauge the effectiveness of the institution's loan collection capability.

Probably the most common type of past-due list is the "aging list," which sorts accounts by loan due dates, with oldest first. If this list also includes items such as date last payment was made and a status code to show whether the account is "in-house" or at an outside firm, the list becomes a useful management tool to indicate which accounts need special attention.

Delinquency Reports

Delinquency reports show totals arranged in a meaningful way to indicate to management the status of a loan portfolio (see Exhibit GEN-36). This report also shows the amount available for lending. By comparing summary totals of this report with those of the previous year, managers can see at a glance whether the situation is worsening or improving.

Each federal loan program requires an annual report, designed to reveal the institution's delinquency rate. Rather than wait for completion of that report (usually June 30), the institution should design a monthly report on the status of the loan program. The institution then has sufficient warning to allow action for reducing the rate before the annual report (Exhibit NDSL-39).

Although delinquency reports should be distributed monthly to all administrators concerned with loan programs, their purpose is not to bring credit or discredit to collection staff. Instead, collection staff should use such reports as a tool to help set priorities. If the delinquency rate begins to climb, something is wrong and needs attention. If the rate goes down, staff should be commended, which in turn may encourage them to try even harder.

Paid-In-Full Accounts

When a borrower has paid the account in full, the promissory note should be stamped "Paid" or "Paid in Full," and should be returned to the borrower. However, the note should be copied or microfilmed before it is released. Such records are retained at most institutions for at least five years after the loan is paid. (Federal programs stipulate the length of time.)

All records should be retained until after an audit is performed. If there are no audit questions, or if all questions have been resolved, incidental records, such as collection letters, address changes, etc., can be purged. Records that involve approval of the loan and those involving collection, such as ledgers, should be microfilmed. Microfilms are acceptable by the courts and eliminate file space needed for storage.

National Defense/Direct Student Loans

Introduction

The National Defense/Direct Student Loan Program is regulated by the U.S. Department of Education (ED), Office of Student Financial Assistance, Washington, D.C. The loan program was authorized by Title II of the National Defense Education Act of 1958 and by Title IV, Part E, of the Higher Education Act of 1965, as amended. The National Direct Student Loan Program (NDSL) is a continuation of the National Defense Student Loan Program (see Exhibit NDSL-37 for legislative changes that have affected the NDSL program).

History

Title II of the National Defense Education Act of 1958, Public Law 85-864, provided the original authorization for the Defense Loan Program. Amendments in 1961, 1962, 1963, and 1964 made various changes. Then the Higher Education Act of 1965 brought authorizations for the College Work-Study, Educational Opportunity Grant, and Guaranteed Student Loan (GSL) programs together under a single statute (Title IV of the Higher Education Act of 1965). Other amendments were passed in 1966, 1968, and 1970. The Education Amendments of 1972, P.L. 92-318, created the National Direct Student Loan Program, effective July 1, 1972. Most recent statutory changes are found in the Education Amendments of 1976, P.L. 94-482; the Education Amendments of 1980, P.L. 96-374; the Continuing Appropriations Act of 1980, P.L. 96-536; the Omnibus Budget Reconciliation Act of 1981, P.L. 97-35; the Student Financial Assistance Technical Amendments of 1982, P.L. 97-301; and the Student Loan Consolidation and Technical Amendments Act of 1983, P.L. 98-79.

Purpose

The NDSL program was established by Congress to help qualified, needy students attend their chosen institutions of higher education by providing them with long-term, low-interest loans. The goal is to insure that no student of ability is denied the opportunity for higher education because of financial need. The program fund is normally composed of 90% federal funds and a minimum of 10% institutional funds. It is intended that these funds become revolving funds, supported by repayments from former borrowers.

Loan Maximums

The statute governing the NDSL program does not restrict the amount that may be granted per academic year. However, the aggregate of all loans for all years to one student from NDSL funds may not exceed:

1. $12,000 for any graduate or professional student, including any loans from such funds made to such person before he or she became a graduate or professional student;
2. $6,000 for a student who has successfully completed two academic years of a program of education leading to a bachelor's degree, but who has not completed the work necessary for such a degree, and including any loans from such funds made to that person before he or she became such a student; and
3. $3,000 for any student who has not completed two academic years of a program of education leading to a bachelor's degree.

This, although rarely done, would allow an institution to grant these maximums within a period of one academic year if the money were available and the need could be documented.

Amounts listed above are lifetime limits. Repayment does not reinstate new limits. Suppose, for example, that a student borrowed $12,000 while earning a bachelor's and a master's degree. That borrower would not be eligible for a new loan on entering a doctoral program, even though

repayment had been made of a portion or all of the $12,000 previously borrowed.

A student who borrowed $6,000 while earning a bachelor's degree would be ineligible for another loan if he or she later enrolled in a program for a second undergraduate degree. However, if the student borrowed only $5,000 while enrolled for the first bachelor's degree, he or she would still be eligible for a loan of up to $1,000 while studying for the second undergraduate degree. A student who borrowed $3,000 would be ineligible to borrow further funds for a program of study that does *not* lead to a bachelor's or higher degree.

Eligibility

A student is eligible to receive an NDSL if he or she:

1. Has been accepted for enrollment as at least a half-time undergraduate, graduate, or professional student or, in the case of a student already attending, is enrolled as at least a half-time undergraduate, graduate, or professional student;
2. Is a national of the United States, is in the United States for other than a temporary purpose and intends to become a permanent resident thereof, or is a permanent resident of the Trust Territory of the Pacific Islands or the Northern Mariana Islands;
3. Is in need of the loan to pursue a course of study;
4. Is maintaining satisfactory progress in the chosen course of study, according to standards and practices of the institution;
5. Is not in default on any Title IV loan and does not owe a refund on any Title IV grants received to attend that institution. (A loan discharged in bankruptcy is not considered to be in default);
6. Has certified compliance with selective service registration requirements.

NOTE: If a student who has been determined to be eligible for a loan thereafter fails to maintain good standing or meet satisfactory academic progress standards, the eligibility of such student shall be suspended, and no loan payments to, or on behalf of, such student may be made until he or she regains good standing or meets the institution's standards for academic progress.

Need

For purposes of determining "need," a student is considered in need if the cost of the student's education at the chosen institution exceeds the expected family contribution as determined by the institution pursuant to NDSL regulations.

Special Sessions

A student enrolled in an institution of higher education in one or more classes during a period of special enrollment, such as a special summer term, is eligible for an NDSL if he or she:

1. Meets other eligibility requirements of the regulations;
2. Is registered as at least a half-time student at that institution during such session; and
3. Either was in attendance as at least a half-time student at that institution during the regular term immediately preceding such session or will be enrolled as at least a half-time student during the subsequent regular term at that institution.

Religious Communities

A member of a religious community, society, or order who, by direction of the community, society, or order is pursuing a course of study in an institution of higher education, or who receives support and maintenance from the community, society, or order is deemed not to have financial need.

Selection

An institution must make loans reasonably available to all eligible students and must base the order of selection on degree of need if there are insufficient funds to meet needs of all eligible applicants. The institution may not, as a matter of policy, exclude any category of eligible students such as all graduate, all half-time, or all independent students. The institution must document its selection criteria and have them available for public inspection.

An institution may not make a loan to a student who is unwilling to repay. An oral statement of unwillingness to repay or a default on a previous loan *can* be interpreted as unwillingness. This provision gives an institution a basis for denying a loan to a student who has defaulted on an NDSL or GSL used to attend another institution.

An institution may not make a loan to a student who is in default on a GSL or an NDSL received for attendance at that institution unless the student has made satisfactory arrangements to repay the defaulted loan.

An institution may make a loan to a student who has been overpaid on a Pell grant at that institution *only* if the student has made satisfactory arrangements to repay the amount overawarded.

Statement of Educational Purpose

An institution may not disburse loan funds to a student unless he or she files a statement of educational purpose in which the student declares that the loan will be used solely for educational expenses in connection with attendance at the institution.

The Secretary of Education considers the following as satisfying this requirement: "Statement of Educational Purpose: I declare that I will use any funds I receive under the NDSL program for expenses connected with attendance at (Name of Institution), (Date), (Signature)."

Making a Loan

Regulations require an institution to establish a system of internal checks and balances to insure that no one person can both authorize payments and disburse funds to students. Certain functions, such as determining student eligibility, preparing aid packages, notifying students of the amounts and types of aid offered, and preparing loan notes are typically assigned to the financial aid office. Another important function, sometimes performed by the financial aid office and sometimes by the business office, is explaining the terms of the loan to a student before his or her acceptance (this is covered below in the sections on preloan counseling and borrower rights and responsibilities). Disbursement of money to the student should be assigned to an office other than the financial aid office, such as the business office.

For a loan program to function properly, it is important that all persons involved understand what each office does. A lack of understanding or a lack of communication between offices is likely to result in problems, not only while a student is attending the institution, but also later, in collection of the loans. A precise job description for each function should be on file at the institution. The financial aid office and business office must also work together in other aspects of the NDSL program, such as loan collection and preparation of the *Annual Fiscal Operations Report and Application to Participate in the NDSL, SEOG, and CW-S Programs* (FISAP).

Procedure

The division of responsibility among various offices and the segregation of duties among staff members differs according to institution. Institutional size is often a determining factor. However, there are certain basic steps that each institution must follow in making a loan.

1. Perform need analysis.
2. Make an offer of an award.
3. Obtain an acceptance of the offer.
4. Prepare the following loan documents:
    a. Promissory note
    b. Disclosure statement
    c. Preloan counseling statement
5. Consummate the loan:
    a. Obtain borrower's signature on disclosure statement.
    b. Obtain borrower's signature on preloan counseling statement.
    c. Obtain borrower's signature on promissory note accepting the terms of the loan. (This is the signature at the end of the note not in the schedule of advances.)
    d. Obtain endorser's signature if borrower is not of age, according to state law.
    e. Obtain a completed "Personal and Confidential Information Form" (for skip-tracing; this is optional).
    f. Disburse funds and obtain borrower's signature in the schedule of advances.

The disbursement of funds may be accomplished in any manner that meets good business practices, including, but not limited to, the following:

1. Credit to the student's account
2. Voucher
3. Check
4. Cash

Regardless of the manner of disbursement, a good audit trail must be maintained to show proof that the student received the proceeds.

Preloan Counseling

Sound collection procedures presuppose reasonable discretion in lending. Perhaps the most important factor in collecting loans is the borrowers' understanding that the money they receive is a *loan* (not a grant), and must be repaid. No loans should be made without this understanding or

without the students' full awareness of their responsibilities.

Borrower Rights and Responsibilities

Regulations require that an institution, before it makes an advance to a borrower, inform the borrower of his or her obligation to repay the loan and to apply it only to educational expenses. Preloan counseling in a personal interview is strongly advised, although such an interview is no longer required as of the August 13, 1979 regulations. If an interview is not possible, a statement of obligations must be given or sent to the prospective borrower. Such counseling may prevent future default. It may be helpful later, in collecting on the loans, to have had the borrower initial or sign a statement that an explanation of the rights and responsibilities was received, even though this is not required by regulations.

The following information must be provided:

1. Yearly and maximum loan amounts a student may borrow;
2. Expected date on which repayment will begin, and terms of repayment;
3. Maximum number of years in which loan must be repaid;
4. Interest rate and minimum monthly payment;
5. Any special options the borrower may have for deferral, cancellation, or prepayment;
6. Definition of default and consequences to the borrower if he or she defaults;
7. Any arrangements made with credit bureaus;
8. To the extent practicable, the effect of accepting the loan on the borrower's eligibility for other forms of student assistance; and
9. Any other information that may aid a student's understanding of what is expected.

This information may be mailed to the student. However, institutions may want to be sure a student has read and understands the information by providing it in the form of a checklist, which the student must sign before the loan is made. (See Exhibit NDSL-38 for a sample statement of borrower's rights and responsibilities.) The "statement of educational purpose" presented earlier must also be signed before the loan can be made.

Effective "preloan" counseling sessions satisfy the initial due diligence requirement of informing each borrower of his or her rights and obligations, but such counseling does *not* satisfy the requirement of an exit interview.

Disclosure Requirements

The Garn-St. Germain Depository Institutions Act of 1982 (P.L. 97-320) effective October 13, 1982, amended the Truth-in-Lending Act to exempt all past and future Title IV loans from the truth-in-lending disclosure requirements. However, new NDSL disclosure requirements were added in the Student Financial Assistance Technical Amendments of 1982 and revised in the Student Loan Consolidation and Technical Amendments Act of 1983 (P.L. 98-79). Disclosures are required both prior to disbursing and/or making the loan and prior to the start of the repayment period. However, failure of an institution to provide proper disclosure will not relieve a borrower of the obligation to repay a loan in accordance with its terms nor provide a basis for a claim for civil damages.

Disclosures required before repayment begins are covered in the section on exit interviews. In addition to the information that must be provided in preloan counseling, the following disclosures must be made to the borrower in writing before the loan is made or disbursed. They can be included in the promissory note or made in a separate form. Required disclosures include:

1. The name and address of the institution to which communications and payments should be sent.
2. The principal amount of the loan.
3. An explanation of any special options the borrower may have for loan consolidation or other refinancing of the loan.
4. A statement that the borrower has the right to prepay all or part of the loan, at any time, without penalty; a statement summarizing circumstances in which repayment of the loan or interest that accrues on the loan may be deferred; and a brief notice of the program for repayment of loans on the basis of military service pursuant to section 902 of the Department of Defense Authorization Act, 1981 (10 U.S.C. § 2141, note).
5. An explanation of any cost the borrower may incur in the making or collection of the loan.

Among the disclosures required is a brief notice of the program for repayment of loans on the basis of military service "pursuant to section 902 of the Department of Defense Authorization Act, 1981 (10 U.S.C. § 2141, note). This is a U.S. Army program in which the army repays NDSLs, GSLs, and Federally Insured Student

Loans (FISLs) made to eligible soldiers after October 1, 1975, but before their enlistment. To be eligible, a soldier must have entered a qualifying military occupational specialty (MOS), remained in the specialty during his or her term of service, and scored 50 or higher on the Armed Forces Qualification Test. The army will repay $1,500 or 33⅓% of an eligible soldier's loan, whichever is greater, for each year of active service completed in the occupational specialty. The program is open to soldiers who enlisted between October 1, 1980, and September 30, 1981, or after October 1, 1982. (The program was suspended in fiscal year 1982 and then reinstated.)

Institutions should include a brief notice that the U.S. Army offers a repayment program for eligible soldiers serving in certain military occupational specialties. This program is in addition to the NDSL cancellation provision for full-time active service in a qualifying area of hostilities. Further information on the repayment program can be obtained from: Commander, MILPERCEN, 200 Stovall Street, ATTN: DAPC-PLP, Alexandria, VA 22332, or from local military education or recruitment centers.

Personal Borrower Information

Institutions are encouraged to have borrowers complete a separate information sheet for each new loan during preloan counseling. The sheet should provide sufficient information for locating borrowers if they become skips. Waiting for this information until a borrower leaves school means that borrowers who drop out or fail to have an exit interview may be missed. The following information from each borrower can enable an institution to locate most "lost" accounts:

1. Borrower's legal name
2. Borrower's local address
3. Borrower's home address
4. Borrower's home telephone number
5. Borrower's birth date
6. College and major
7. Expected graduation date
8. Social security number
9. Spouse's name
10. Spouse's employment
11. Borrower's driver's license number and state
12. Borrower's part-time employer
13. Class (freshman, sophomore, graduate, etc.)
14. Parent's name
15. Parent's address and telephone number
16. Parent's employer's name
17. Parent's employer's address
18. Brothers and sisters over the age of 18, and addresses of each
19. Borrower's insurance companies and addresses
20. Other debts, credit cards, loans, etc.

(See Exhibit GEN-1 for an example of a "Personal and Confidential Information" form.)

The Promissory Note

The promissory note is a legally binding document that provides evidence of a borrower's indebtedness to the institution. Without such a note, the lending institution may not have collection recourse against a borrower, in which case the institution becomes liable for repayment of the money to its NDSL fund. Lack of a properly executed promissory note precludes future assignment to ED.

Care must be taken in drawing up a promissory note, since an improperly constituted note may not be upheld in a court of law and the consequences to the lending institution would be the same as if the note never existed in the first place. Various factors can render a note invalid. Using an out-of-date form, lack of borrower's signature, citing provisions of the Act that are no longer in effect, changing the note after it has been signed without the consent of the borrower and the borrower's acknowledgment by his or her initials, or failing to obtain proper signatures and dates for loan advances could result in a note's being ruled invalid and may preclude assigning the note to ED.

The entire note should be on a single, continuous sheet of paper, as long as is necessary to include all the note's provisions. It may be printed on both front and back. Printing the note on a single sheet of paper reduces the chance of loss, separation, or alteration of the form. Even the possibility of these events happening may be sufficient cause for a ruling against an otherwise proper and legal note. ED recommends that, if a note is printed on both sides of the paper, the signature block be placed on the back; it is assumed that the student read the entire promissory note in order to sign on the back.

It is recommended that the note form contained in Appendix B of the July 30, 1982 regulations be adopted (Exhibit NDSL-40). An institution may use its own note; however, if it should differ substantially from the published note form,

it must first be approved by the Secretary of Education.

Types of Notes

There are two types of promissory notes: the "open-ended" and the "closed-end" or "limited" note. The differences between the two occur in the first paragraph and in the schedule of advances on the note forms.

In an open-ended note, the first paragraph would read "I, (*name of borrower*), promise to pay to (*name of institution*) (hereinafter called the Lending Institution), located at (*city and state*), the sum of the amounts that are advanced to me and endorsed in the Schedule of Advances set forth below." (Note that no amount is shown.) The Schedule of Advances would then contain enough lines to satisfy the needs of the institution. The chief advantage of this type of note is that the institution need not execute a new note for loans made to the same borrower in future years unless the terms of the loan program change by statute or regulation.

The first paragraph of a closed or limited note would read "I, (*name of borrower*), promise to pay to (*name of institution*) (hereinafter called the Lending Institution), located at (*city and state*), the sum of $ (*amount*) (or so much thereof as may from time to time be advanced to me and endorsed in the Schedule of Advances set forth below)." This type of loan usually covers one academic year or less. It differs from the open-ended note in that it is limited to the dollar amount shown in the first paragraph; therefore, the Schedule of Advances can be limited to just enough to satisfy the periods to be covered. The chief benefit of a closed note is that it provides assurances that all amounts to be disbursed were approved by the financial aid office.

Interest Rates

For loans made before July 1, 1981, the interest rate is 3% per year on the unpaid balance. For loans made between July 1 and September 30, 1981, the interest rate is 4% per year and for loans made on or after October 1, 1981, 5% per year.

No interest accrues until six months (nine months on loans granted before October 1, 1980) after the date the borrower ceases to carry at least one-half the normal, full-time academic workload at an eligible institution of higher education. Also, interest does not accrue during an authorized deferment period. For loans made on or after October 1, 1980, a borrower is entitled to a six-month grace period following each deferment for which he or she is eligible.

Possible Options

The note form contained in Appendix B of the regulations presents three options that the institution may wish to include. The Department of Education strongly recommends that the options be adopted, even if the institution has no current plans for exercising any of them. The reason for this is that, if the options are included, the institution is not obligated to exercise them (with the exception of the $30-a-month minimum repayment provision) but it may use one or more of them if some change in institutional philosophy or problems in collections make such use desirable. However, if the options are not included in the note, the institution loses its right to exercise them. Possible options are:

Collection costs. The institution may insert after "I promise to pay to ___ endorsed in the Schedule of Advances set forth below" the following:

"Together with all attorney's fees and other reasonable collection costs and charges necessary for the collection of any amount not paid when due. However, if a collection agency which is subject to the Fair Debt Collection Practices Act is used, I will pay those collection costs that do not exceed 25% of the unpaid principal and interest."

Penalty for late payment. An institution may assess a charge if a borrower fails to pay all or part of a payment when due, or if he or she fails to file requests for deferment or cancellation benefits on time. Charges may not exceed:

1. For monthly payments, $1 for the first month or part of a month, and $2 for each subsequent month.
2. For bimonthly or quarterly payments, $3 and $6 respectively, for each overdue payment.

The institution may add this charge to the outstanding principal of the loan, but must inform the borrower before due date of the next scheduled payment.

Minimum repayment rates. For a Defense Loan, an institution may require a borrower to pay a $15 minimum monthly payment if:

1. The monthly repayment of principal and interest for a ten-year repayment period is less than $15 a month; and

2. The promissory note includes a $15 minimum monthly repayment provision.

For a Direct Loan, an institution may require a borrower to pay a $30 minimum monthly payment if:

1. Monthly repayment of principal and interest for a ten-year repayment period is less than $30 a month; and
2. The promissory note includes a $30 minimum repayment provision.

Simply stated, an institution may require minimum payments when a loan payment on a National Defense Student Loan would be less than $15, or a loan payment on a National Direct Student Loan would be less than $30, for a ten-year repayment period. These minimums include interest charges. The minimum payment *may not* represent only principal amounts with interest to be added.

There are other restrictions placed on institutions in using the minimum provision. They are:

1. If a borrower has obtained Defense Loans from more than one institution, and if monthly repayment amounts of principal and interest are less than the equivalent of $15 per month, and only one institution exercises the $15 minimum monthly repayment option, the institution that exercises the option receives the difference between $15 and the monthly repayment rate of principal and interest owed to the other institution.

2. If a borrower has obtained Defense Loans from more than one institution, and if monthly repayment amounts of principal and interest are less than the equivalent of $15 per month, and each of the institutions exercises the $15 minimum monthly repayment option, such $15 minimum repayment shall be divided among such institutions in proportion to the total amount of principal advanced by each institution. However, the division of payments must insure that both loans are repaid within the ten-year maximum periods.

3. If a borrower has obtained Direct Loans from more than one institution, and if monthly repayment amounts of principal and interest are less than the equivalent of $30 per month, and only one institution exercises the $30 minimum monthly repayment option, the institution that exercises the option receives the difference between $30 and the monthly repayment rate of principal and interest owed to the other institution.

4. If a borrower has obtained Direct Loans from more than one institution, and if monthly repayment amounts of principal and interest are less than the equivalent of $30 per month, and each of the institutions exercises the $30 minimum monthly repayment option, such $30 minimum repayment is divided among the institutions in proportion to the total amount of principal advanced by each institution.

5. If a borrower has received both a Direct and a Defense Loan, the following rules apply (in all cases, repayment includes principal and interest):

   a. If total monthly repayment is at least $30 for both a Defense and a Direct Loan, no institution may exercise a minimum repayment option, even if the Defense Loan repayment is less than $15 or the Direct Loan repayment is less than $30.
   b. If total monthly repayment is less than $30 for both Defense and Direct Loans, an institution may exercise either minimum repayment option. Maximum monthly repayment, however, may not exceed $30 a month.
   c. If—
      (i) Total monthly repayment is less than $30; and
      (ii) Amount owed on a Defense Loan is less than $15, the amount attributed to the Defense Loan may not exceed $15 a month. However, $15 may be attributed to the Defense Loan *only* if the institution exercises the minimum option on the Defense Loan.

6. a. If a borrower has received Direct Loans at different interest rates from the same institution, and total monthly repayment is at least $30 for both, the institution may not exercise the minimum monthly payment on either loan.
   b. If the borrower has received Direct Loans at different interest rates at the same institution, and the total monthly repayment is less than $30, the institution may exercise the $30 minimum payment option, providing it is in the promissory notes, and the institution divides repayment between the accounts in proportion to amount of principal advanced under each loan.
   c. If a borrower has received Direct Loans

at different interest rates from more than one institution, each institution must follow procedures described in paragraphs (3) and (4) of this section.

d. If a borrower has received Direct Loans prior to October 1, 1980, and a Direct Loan between October 1, 1980 and June 30, 1981, the institution must follow procedures described in paragraphs (6) (a) and (3) and (4) of this section.

Prepayments

The promissory note must state that the borrower may prepay all or any part of the loan at any time without penalty.

Amounts repaid during the academic year in which the loan was made are used to reduce the original loan amount and are not considered prepayments.

If a borrower repays more than the amount due for any repayment period, the excess must be used to prepay the principal unless the borrower designates it as an advance payment of the next regular installment.

Security and Endorsements

The note shall provide that the loan be made without security and without endorsement, except that security or endorsement may be required if the borrower is a minor and if, under applicable state law, a note executed by a minor would not create a binding obligation.

Acceleration

To accelerate a loan means that the institution demands immediate repayment from the borrower of the loan's full unpaid balance, plus accrued interest and charges. Regulations state that the promissory note must provide that the institution may demand immediate repayment of the entire loan, including accrued interest and any penalty charges. This provision may be used if the borrower does not make payments or file deferment or cancellation forms with the institution on time.

If a borrower is in default on a loan, and the institution accelerates the loan, the borrower loses any entitlement he or she might otherwise have earned *after* the date of acceleration. However, a borrower must still be given any entitlement earned but not claimed before the institution accelerated the loan. The only way in which a borrower might receive an entitlement of the promissory note after the date of acceleration of the loan would be a case in which institution and borrower agree to reinstate the loan and establish a new repayment schedule.

For example, suppose that a borrower has failed to make payments for four years. The borrower has been teaching for the last two years, in a school that qualifies for cancellation, but has failed to file appropriate teacher cancellation forms. The institution sends a final demand letter, stating acceleration and demanding full repayment of the unpaid balance within 30 days. Two months later, the borrower files an appropriate teacher cancellation form for two years of eligible teaching service and a request for postponement in anticipation of cancellation for the current year.

In this case, the institution must honor cancellation requests for the two years of eligible teaching service completed before the loan was accelerated, which means that the borrower may receive cancellation of principal and interest for two full years of teaching service. The institution is not, however, required to honor the borrower's request for postponement in anticipation of cancellation of the current year. The borrower's right to enjoy the benefits of the promissory note ended on the date the note was accelerated. The borrower is still responsible for repaying the amount of the loan due during the first two years of the repayment period.

As of the date of acceleration, the relevant statute of limitation begins to run on the entire remaining balance of the loan. An institution must collect the entire unpaid balance of the loan, plus any interest which accrues, within the time provided by the statute of limitations. If the institution fails to collect the amount within the stated period, the borrower may use this failure as a defense against repaying the loan unless a revised, extended repayment agreement is executed. However, the expiration of the statute does not invalidate the debt; it only provides the debtor with a defense to prevent certain court actions. If suit is brought and the debtor fails to show or to raise a defense, the court would enter a valid judgment. The statute of limitations is normally one provided by state law in the state where the institution is located.

Safeguarding the Note

Promissory notes must be kept in a locked, fireproof container, and only authorized personnel may have access to them.

Changes in a Note

If an error is discovered in a promissory note, the institution should obtain legal advice on appropriate action. The institution, student and, if necessary, an endorser should sign or initial all approved changes in the note.

Repaid Note

An institution must keep all financial and repayment records for a loan for five years after the entire amount of the loan is repaid in full, cancelled, or assigned. Microfilm copies may be substituted for original records.

When a loan has been repaid, the institution should mark the note "Paid in Full," have it certified by an officer of the institution, and give the note to the borrower. The institution must keep a copy of the note for at least five years after the date the loan was repaid in full.

Assignment or Transfer

A promissory note may be assigned only to:

1. An institution participating in the NDSL program;
2. The federal government; or
3. An institution to which the borrower has transferred (if the institution participates in the program or is eligible to participate, and is approved by the Department of Education to receive promissory notes). The institution that transfers a note to another institution assigns all rights to amounts collected to the institution that accepts responsibility for the note. For loans assigned to the federal government, the institution assigns rights to a note without recompense and any amounts subsequently collected are deposited in the U.S. Treasury general fund.

Disbursement

Loans may be either disbursed directly to borrowers or credited to their accounts. If the institution credits the account, it must give the borrower a receipt. The award letter may be used as a receipt if the letter sets forth how the funds will be applied. Whichever method the institution chooses, it must keep either cancelled checks or vouchers as evidence of payment.

An institution making a loan for a full academic year must advance a portion of the loan during each payment period. For institutions using standard academic terms, payment periods are defined as semesters, trimesters, or quarters. The amount to be advanced is determined by dividing the NDSL award by number of payment periods in the academic year. If a student incurs uneven costs during an academic year, and needs additional funds during a particular payment period, the institution may advance the additional amount.

For a student attending less than a full academic year, the amount to be advanced each payment period is determined by dividing the NDSL award by number of payment periods the student is expected to attend in the academic year.

Institutions not using standard academic terms must advance funds at least twice during the academic year—once at the beginning and once at midpoint. No more than half the loan may be advanced before midpoint.

Within a payment period, an institution may advance funds in whatever installments it determines best meet the student's needs.

Only one advance is necessary if the total amount awarded a student under a campus-based program is $300 or less.

A six-month training program that prepares students for employment in a recognized occupation equals a full academic year for disbursement purposes.

In-School Period

The institution must retain accurate and comprehensive records of loans to students. It is recommended that a file folder be prepared showing the borrower's name and account number. Notes, address changes, deferment and cancellation forms, correspondence, and any other information pertaining to that borrower should be placed in the file, which should be maintained until after the loan is paid in full. At that time, required due diligence documents can be microfilmed, original notes stamped "Paid" and returned to the borrower, and the file purged. Microfilming due diligence documents (including notes) satisfies the need to keep paid records for five years.

Records Check

Regulations require the institution to coordinate information in institutional records in various offices. These include the registrar's, admissions, financial aid, business, and alumni offices. Since ED's agreement is with the institution, no one office in the institution may refuse to provide information regarding a student's whereabouts to

the financial aid or business office. Coordination of information within the institution is not a violation of the Privacy Act. The purpose of such coordination is to determine if the student is enrolled, is about to graduate, or has already left school. Timing of the records check becomes important, since grace periods are only six or nine months long. Such timing would necessitate matching the "in-school" loan accounts with the registrar's records each term or semester to determine if the borrower has left without an exit interview.

Exit Interview

The time at which a student leaves school or drops below half-time status is especially important in administering the NDSL program. Normally, this occurs at graduation, but many students leave earlier by transferring to other institutions or by dropping out, either at the end of an academic year or during the year.

Regulations require that the institution conduct an exit interview with each borrower before he or she leaves the institution. The interview should be conducted on an individual basis, but if this is not feasible, a group interview is acceptable.

Exit interviews may be held at a time other than when a student is under graduation pressures. However, the requirement for an exit interview cannot be replaced by an interview held in connection with preloan counseling (see p. 27).

Purpose

The exit interview gives both borrower and institution an opportunity to review terms of the note, the repayment schedule, and borrower's rights and responsibilities and to resolve any questions or problems. When the borrower leaves, there should be an understanding that aid received under the NDSL program is a *loan*, which must be repaid with interest, and that repaid money is reloaned to other students. The borrower should also understand the penalty for late repayment and the need to send payment or appropriate deferment, postponement, or cancellation forms when due.

To Determine When a Student is Leaving

Cooperation among institutional offices helps to determine when a student will graduate; this information, in turn, can be used in arranging exit interviews before borrowers leave school. Other methods also may be used, such as reviewing personal and confidential information forms to determine the class level of borrowers.

Who Conducts the Interview

Regulations do not designate the person or office responsible for conducting exit interviews. Some institutions believe a good rapport probably exists between borrowers and the financial aid office because of past dealings between them. In those institutions, the financial aid office usually is given responsibility for exit interviews.

It should be considered that future contact between borrowers and the institution will be through the office responsible for loan collection. As the ability to recover funds is closely tied to borrowers' understanding of their rights and responsibilities, once they leave school, it may be appropriate for collection staff to be responsible for exit interviews.

The person who conducts the interview must be knowledgeable in all phases of due diligence requirements and about benefits to which the borrower is entitled. Since an informed borrower is more likely to honor repayment terms than one who is uninformed, the conductor of the interview must be sure that all borrowers receive necessary information.

Scope of the Interview

At a minimum, an exit interview should cover principal features of the note, the repayment schedule, and the borrower's rights and responsibilities. Following is a list of topics, not necessarily exhaustive, to be covered:

1. The note
    a. Full amount borrowed
    b. Interest rate
    c. Optional provisions (minimum repayments and penalty and collection charges)
    d. Amount of first payment and its due date
    e. Repayment schedule (Exhibit GEN-11)
2. Borrower's rights
    a. Prepayment without penalty
    b. Postponement
    c. Deferment
    d. Cancellation
    e. Procedure for applying for deferment, postponement, and cancellation

3. Borrower's responsibilities

   a. Make payments on time.
   b. Send in deferment, postponement, or cancellation form at the time a payment is due.
   c. Inform institution promptly (specifically, the loan collection office) of a change in address.
   d. Notify institution in advance of payment date if unable to make a scheduled payment.
   e. Request an adjustment in repayment schedule if exceptional circumstances so warrant.

4. Communications and billing

   a. Notices during grace period
   b. Frequency of billing
   c. Form of billing

At the conclusion of the exit interview, the borrower should know the exact amount borrowed, interest rate, and repayment schedule. The borrower must also have a copy of the promissory note with repayment schedule and should understand all rights and responsibilities. The institution must have the original note, properly executed and signed, and should have a signed copy of the repayment schedule. It is especially important that the borrower's signature be on the note and repayment schedule in the proper places. It is also wise to review skip-tracing information, or at least make sure that someone other than the borrower is listed with an address and telephone number. A properly conducted exit interview is an essential step in exercising due diligence.

The repayment schedule should be attached to the note. While the schedule or plan need not be in the form of an amortization schedule, ED recommends a full amortization schedule where possible for the mutual benefit of both institution and borrower. At the very least, the plan must include the following:

1. Number of equal principal repayments, unless the borrower has opted for graduated repayment and the institution and the Secretary of Education have approved that option.
2. Interest rate
3. Due date of first payment
4. Frequency of repayment

If a Student Leaves Without An Interview

Every effort should be made to provide an "in-person" exit interview, for dropouts as well as for those who are graduating. If it is discovered that a borrower has left school without notice, the institution must immediately mail in duplicate the information that would have been covered in an exit interview, including a copy of the promissory note and repayment schedule, and request the borrower to sign and return one set to the institution. (See Exhibits NDSL-41 and NDSL-42 for sample exit interview letters and Exhibit NDSL-43 for a copy of booklet on rights and obligations.)

Disclosures

The Garn-St. Germain Depository Institutions Act of 1982, effective October 13, 1982, amended the Truth-In-Lending Act to exempt all Title IV loans from disclosure requirements of the Truth-In-Lending Act. However, the Student Financial Assistance Technical Amendments Act of 1982 and, later, the Student Loan Consolidation and Technical Amendments Act of 1983 amended the Higher Education Act of 1965 by adding new disclosure requirements. The amendments provide that an institution must disclose the following information to the borrower prior to the beginning of the repayment period:

1. Name and address of the institution to which the debt is owed and to which communications should be sent.
2. Name and address of person to whom payments should be sent.
3. Scheduled date on which repayment period is to begin.
4. Estimated balance owed by the borrower on the loan or loans covered by the disclosure as of the scheduled date on which the repayment period is to begin.
5. Stated interest rate.
6. Nature of any fees that may accrue or be charged to the borrower during repayment period.
7. Repayment schedule for all loans covered by the disclosure, including date the first installment is due and the number, amount, and frequency of required payments.
8. Explanation of any special options the borrower may have for loan consolidation or other refinancing of the loan.
9. Projected total of interest charges that the borrower will pay on the loan or loans, assuming

that the borrower makes payments exactly in accordance with the repayment schedule.

10. Statement that the borrower has the right to prepay all or part of the loan or loans covered by the disclosure at any time without penalty.

The information must be provided in the promissory note or in another written form.

Attention to the two sections below should enable administrators to disclose accurate information to borrowers at the exit interview. Through use of a constant multiplier table or reference to *A Guide to the Repayment of Multiple National Direct Student Loans*,[1] an administrator may calculate (1) number of payments required, (2) amount of interest to be paid, and (3) size of each payment necessary to retire all loans in the minimum time allowed, even if the borrower has loans at more than one institution or at more than one interest rate.

Ten-Year Repayment

For loans to be paid back over the full ten-year period, an institution can use a "constant Multiplier" to determine the amount required for each payment. A table of constant multipliers is shown at the bottom of the page.

For example, if a borrower has a loan at 3% in the amount of $4,000, the monthly payment would be calculated by multiplying $4,000 by .0096562. The result would be 120 monthly payments of $38.63.

If a borrower has loans at different rates, or with different terms, the same method can be used as long as the repayment period is ten years. If the total monthly payment is equal to or greater than $30, all loans must have ten-year repayment periods. For example, if a borrower has loans of $2,500 at 3%, $1,000 at 4%, and $1,000 at 5%, the loans would total $4,500. The repayment period would be ten years and monthly payments would be calculated as follows:

3% =	$2,500 × .0096562 =	$24.15
4% =	$1,000 × .0101245 =	$10.13
5% =	$1,000 × .0106065 =	$10.61
	$4,500	$44.89

Or assume a borrower has a 3% Defense Loan of $1,700 and a 3% Direct Loan of $2,000. Together they total $3,700, requiring a ten-year repayment period. Monthly payments would be calculated as follows:

3% Defense Loan =	$1,700 × .0096562 =	$16.42
3% Direct Loan =	$2,000 × .0096562 =	$19.32
	$3,700	$35.74

Interest would be calculated (using the last example) by multiplying $35.74 by 120 payments ($4,288.80) and subtracting amount borrowed ($3,700). Interest would be $588.80 ($4,288.80−$3,700.00 = $588.80).

For disclosure purposes, there would be:

1. Number of payments = 120 monthly
2. Amount of interest = $588.80
3. Size of each payment = $35.74

Less Than Ten-Year (Minimum) Repayment

If the institution chooses the minimum repayment option, regulations require repayment to be divided among accounts in proportion to the amount of principal advanced under each loan. Because the repayment period is less than ten years, the constant multiplier table cannot be used. Instead, a method must be used that divides the $30 payment proportionately between

[1] Available from Federal Student Aid Programs, Box 84, Washington, D.C. 20044.

ANNUAL RATE	*PAYMENT FREQUENCY*	*PAYMENTS PER YEAR*	*TOTAL PAYMENTS*	*CONSTANT MULTIPLIER*
3%	Monthly	12	120	0.0096562
3%	Bimonthly	6	60	0.0193329
3%	Quarterly	4	40	0.0290302
4%	Monthly	12	120	0.0101245
4%	Bimonthly	6	60	0.0202764
4%	Quarterly	4	40	0.0304556
5%	Monthly	12	120	0.0106065
5%	Bimonthly	6	60	0.0212470
5%	Quarterly	4	40	0.0319214

the loans. The following six-step procedure, which uses tables given in *A Guide to the Repayment of Multiple National Direct Student Loans* (see footnote on p. 36), can be used to divide payments, calculate interest, and determine number of required payments. The example given below is for a borrower with loans at different interest rates at the same institution. However, the same procedure would be used for loans at different institutions, for borrowers with both Defense and Direct Loans, and for borrowers with more than one Defense or Direct Loan at the same interest rate.

Step 1. Total all loans advanced to borrower.

Step 2. Based on total obtained in Step 1, find the following from the appropriate chart, depending on interest rate, type of loan, and frequency of payments:

(a) number of payments
(b) amount of interest

Step 3. Find percentage of each loan to the total by dividing each loan by the total. (It is important to carry this calculation to at least two decimal places. The total must equal 100%.)

Step 4. Multiply the minimum payment by percentages found in Step 3 to find payment size for each loan.

Step 5. Multiply amount of interest found in Step 2 by percentages found in Step 3 to obtain amount of interest to be paid.

Step 6. To determine size of last payment:

(a) Add loan principal and interest.
(b) Multiply amount of each payment found in Step 4 by one less than the number of payments found in Step 1.
(c) Subtract (b) from (a).

When using the table for National Direct Student Loans at different interest rates, the number of required payments may vary. In the example shown here, required monthly payments for the 3% loan are 103; for the 4% loan, 108; and for the 5% loan, 114.

Assume that the borrower has obtained these loans:

Loan 1—$1,200 at 3%.
Loan 2—$ 500 at 4%.
Loan 3—$1,000 at 5%.

The six steps would be as follows:

Step 1. Total all loans ($1,200 + $500 + $1,000 = $2,700).

Step 2. Based on the total ($2,700), find the following from the $30-per-month table:

(a) Number of payments
Loan 1 = 103
Loan 2 = 108
Loan 3 = 114
(b) Amount of interest
Loan 1 = $362.51
Loan 2 = $515.41
Loan 3 = $691.06

Step 3. Find the percentages of each loan to the total ($2,700.00) by dividing each loan by the total.

Loan 1 $1,200.00 ÷ $2,700.00 = 44.44 percent.
Loan 2 $ 500.00 ÷ $2,700.00 = 18.52 percent.
Loan 3 $1,000.00 ÷ $2,700.00 = 37.04 percent.
$2,700.00 100.00 percent

Step 4. Multiply the $30.00 minimum payment by the percentages obtained in Step 3 to find the payment due on each loan.

Loan 1 $30.00 × 44.44 percent = $13.33
Loan 2 $30.00 × 18.52 percent = $ 5.56
Loan 3 $30.00 × 37.04 percent = $11.11
$30.00

Step 5. Multiply each amount of interest found in Step 2 by the percentages found in Step 3 to obtain the amount of interest to be paid.

Loan 1 $362.51 × 44.44 percent = $161.10
Loan 2 $515.41 × 18.52 percent = $ 95.45
Loan 3 $691.06 × 37.04 percent = $255.97
$512.52

Step 6. To obtain amount of last payment:

(a) Add loan principal, plus interest.
(b) Multiply the amount of each payment found in Step 4 by one less than the number of payments found in Step 1.
(c) Subtract (b) from (a).

Loan 1 $1,200.00 principal + $161.10 interest = $1,361.10
102 payments at $13.33 = $1,359.66
Last payment = $ 1.44
Loan 2 $500.00 principal + $95.45 interest = $ 595.45
107 payments at $5.56 = $ 594.92
Last payment = $ .53
Loan 3 $1,000.00 principal + $255.97 interest = $1,255.97
113 payments at $11.11 = $1,255.43
Last payment = $ .54

Using a quarterly repayment, results would be:

Loan 1 of $1,200 at 3% requires 34 payments of $40 per quarter and a final payment of $4.49 with $164.49 interest.

Loan 2 of $500 at 4% requires 35 payments at $16.67 per quarter and a final payment of $13.98 with $97.43 interest.

Loan 3 of $1,000 at 5% requires 37 payments of $33.33 per quarter and a final payment of $27.97 with $261.18 interest.

Once the information has been obtained, it can be entered on a repayment schedule for the

borrower. This method provides accurate information at the time of the exit interview, but the borrower should be told that changes in repayment (defaults, cancellations, etc.) could affect the accuracy by the time the loan is fully repaid.

Repayment From Low-Income Borrowers

For loans made on or after October 1, 1980, recent amendments permit an institution to extend the repayment period up to an additional ten years for a low-income borrower if that person is expected to remain at low income during repayment period. A low-income borrower is defined as one from a family whose taxable income for the preceding year did not exceed 150% of the poverty-level income established by the U.S. Bureau of the Census. The payment schedule should be adjusted to reflect the borrower's income.

This provision should be used only for persons who expect to remain at a low-income level for longer than a year. Repayment problems of shorter duration should come under hardship provisions. The institution can use a copy of the borrower's income tax form to determine whether he or she fits the criteria. The U.S. Census Bureau revises the poverty income level annually; it is found in Table 17, "Weighted Average Threshold," in the Bureau's publication *Current Population Reports, Series P-60, Money Income and Poverty Status of Families and Persons in the United States*. Institutions should use the "Nonfarm Total" figure from this table as the poverty level. (A new volume is issued each year containing population and income statistics for the previous year.) The institution should inform the borrower that it will review the situation at various times during the repayment period. The extended payment period should last only as long as the borrower remains at a low-income level.

Billing Process

All parts of the loan process are important if the purpose of the loan program is to be fulfilled. However, if collections are to be made in a consistent and satisfactory manner, the billing process becomes the most important step. Borrowers cannot be expected to pay unless they are reminded that payment is due.

Regulations allow an institution to choose among billing borrowers on a monthly, bimonthly, or quarterly basis. Monthly billing gives the institution more frequent contact with the borrower and is convenient for the borrower since most other bills are monthly. Although monthly billing is more expensive than bimonthly or quarterly, it may more effectively keep the default rate low. Bimonthly billing is not extensively used. The main advantage of quarterly billing is that it is the least expensive of the three methods.

Due Diligence

Reasonable care and diligence must be exercised in collecting NDSLs, not only with regard to borrowers, but also with regard to endorsers, whose signatures were obtained as security. This means that the institution must use collection practices no less extensive and forceful than those used on its other loans of comparable size. Statements must be timely and use of collection firms, strong collection activities by institutional staff, or litigation may be deemed necessary if the borrower or the endorser fails to respond to requests for payment.

Response to written inquiries and other communications from the borrower and any proper endorser must be timely. Lack of a timely response indicates a poorly run program and fosters delinquencies.

Acceptance by ED of accounts determined by the institution to be uncollectible rests on whether or not the institution has exercised due diligence. It is, therefore, important to become familiar with Subpart C of the NDSL regulations, which state requirements of "due diligence." (Subpart C, "Loan Collection—Due Diligence" was reproduced from the January 19, 1981 NDSL regulations and is presented as Exhibit NDSL-44.)

Grace Period Notices

A "grace period" is generally the interval between the date the borrower ceases to be at least a half-time student (or before October 16, 1964, a full-time student) and the date repayment must begin. Depending on when the loan was made, this interval is six, nine, or twelve months (six months on loans granted on or after October 1, 1980; nine months on loans granted between October 17, 1964, and September 30, 1980; and twelve months on loans granted prior to October 16, 1964). For loans made on or after October 1, 1980, the term "grace period" also applies to a six-month period between the date a statutory deferment period ends and the date repayment

begins. During any grace period, no payment on a loan is required and no interest accrues.

When a borrower leaves school, the grace period may begin either on the first day of the month following the month the borrower leaves the institution, or on the actual date of the borrower's separation, whichever the institution chooses.

The grace period does not end until the borrower ceases to be at least a half-time student (or before October 16, 1964, a full-time student) for a *continuous* period of six, nine, or twelve months, whichever is applicable. For example, a borrower may take out a loan in the fall quarter, drop out of school for the winter quarter, and resume at least half-time study for the spring quarter. In this case, the borrower still would be entitled to a full grace period when again leaving school or dropping below half-time status.

For loans made before October 1, 1980, if the grace period has expired on one loan, and a borrower should resume study and receive a second loan (also before October 1, 1980), the borrower would receive another grace period only for the second loan. For example, a student may attend school full-time for one year and then drop out. The applicable grace period would expire and the borrower would begin repayment. If the borrower then decided to return to school full-time to complete the course and received another loan, he or she would be entitled to a grace period for the second loan only upon finishing school, and would have to resume repaying the first loan. However, if the first loan in this example was made on or after October 1, 1980, the borrower would be entitled to a six-month grace period following the student deferment on that loan.

Regulations require an institution to contact the borrower during the grace period. For loans made before October 1, 1980, three such contacts are required; for loans made on or after October 1, 1980, two contacts are required. In addition to keeping borrowers informed of their rights and responsibilities, these notices provide the institution with an opportunity to make sure the borrower's address is correct before payments come due. If it is found that a borrower's address has changed, procedures should be implemented immediately to learn the correct address.

The three required contacts for pre-October 1980 loans are:

1. *Ninety (90) days into the grace period*, the institution must advise borrowers of the following:

- That the borrower must inform the institution of any address change.
- Full amount of the loan and the interest rate
- Amount of first repayment and when it is due.
- That the borrower must inform the institution before due date of any repayment he or she cannot make.
- All deferment, cancellation, or postponement rights and the procedures for filing for these benefits.
- Borrower's right to prepay without penalty.
- Loan note's optional features, such as minimum monthly repayment and penalty and collection charges.

2. *One hundred eighty (180) days into the grace period*, the institution must advise borrowers of the date the grace period will end.

3. *Approximately 30 days before the first repayment is due*, the institution must notify borrowers of the date first payment is due and the amount due.

The two contacts required for loans made on or after October 1, 1980, are exactly the same as numbers (1) and (3) above (for loans made prior to October 1980). Step No. (2) above is omitted for loans made on or after October 1, 1980. Also note that if a deferment is given to a borrower because he or she is unable to repay due to extraordinary circumstances, interest continues to accrue during the deferment period and there is *no* grace period at the close of the deferment.

First Statement

Prompt, consistent billing, on a statement form providing sufficient information for the borrower to fully understand the account's status, may be the single most important factor in keeping accounts current. For the first payment, unless a coupon system is established, regulations require an advance notice "no less than thirty days preceding due date." For all other payments, a statement is required no fewer than ten days preceding due date.

The statement form should include complete, detailed information on accounts. It also should be designed such that borrowers can keep the information portion and return the other section with payment. If a computer system is used, the statement can include more information than is possible with a manual system (Exhibit GEN-14).

If a window envelope is used, a borrower is almost forced to return the institution's portion of the statement with payment. This is important in making sure that payment is credited to the proper account.

Overdue Notices

The institution must continue to contact the borrower, requesting payment, if the payment, a deferment or cancellation form, or some reasonable explanation of inability to pay is not received. Each institutional notice should be firmer in tone than the preceding one, although administrators are cautioned that Public Law 95-109, the Fair Debt Collection Practices Act, prohibits harassment. Administrators should be familiar with this Act and with the Family Educational Rights and Privacy Act (Buckley Amendment).

Once an account becomes past due, the institution may wish to withhold all further services (such as transcripts, letters of recommendation, alumni materials, publications, and placement information) until the account has been brought current or until satisfactory arrangements have been agreed on. However, serious consideration should be given to releasing transcripts directly to a prospective employer, since a borrower may be hard pressed to bring the account current without a job. It is advisable to consult with legal counsel prior to taking the above actions.

Fifteen (15) days past due. When a payment is not received within 15 days of the due date, payment must be demanded of the borrower by telephone or in writing. If the borrower is experiencing temporary financial difficulties, the institution may wish to revise the repayment schedule; by urging at least minimal payments, to be increased over the length of repayment, default may be averted. The written demand may be in the form of a past-due statement or a letter similar to that shown in Exhibit GEN-16.

Forty-five (45) days past due. If the borrower does not respond to the 15-day, past-due notice, the institution must again contact the borrower within 30 days, either by telephone or in writing, to demand payment. Again, written contact may be by statement or by letter (Exhibit GEN-17). The borrower must be made aware that the institution intends to pursue collection through all available sources.

Sixty (60) *days past due.* Within 15 days after sending the second past-due notice, if the borrower still has not responded, the institution must make a third contact; this may be by telephone or by Mailgram (or by similar written communication that demonstrates a response rate higher than that for routine mail). The "similar written communication" can be registered or certified mail with a return receipt requested, or it may be from one of the many commercial services that offer overnight delivery and imply a sense of urgency (Exhibit GEN-18).

Seventy-five (75) days past due. The 75-day notice should be a final demand letter; if there is an endorser, he or she should also receive a copy. The letter must indicate the action planned by the institution if the borrower fails to respond. Such action may be use of a collection agency, litigation, or stronger action by institutional personnel.

In the final demand letter, the institution may notify the borrower or endorser that it is accelerating the loan, that is, calling for immediate payment of the entire indebtedness. However, a final demand letter stating that "the institution *may* exercise the option of acceleration" is not acceptable advance notice of acceleration as required by regulations. The institution or billing service must send another letter stating that the institution *is* accelerating. Before payment in full is demanded and the loan is placed for collection, the borrower must be given an opportunity to avoid additional collection charges.

The many institutions that are now using credit bureaus for reporting delinquent borrowers have a distinct advantage in wording the final demand letter. A letter noting the many credit problems for the borrower that failure to pay may bring can be very effective (Exhibits GEN-19-21).

Once the borrower has been informed of the institution's intended action, the necessary steps should be taken without hesitation. Failure to act on demands will not help the borrower, the institution, or the loan program.

Past-Due Lists

NDSL regulations require maintenance of a monthly list of "payments in arrears" of loans not paid when due. The purpose of this list, which must be updated monthly, is to aid the collector in monitoring past-due accounts and to make sure that those accounts pass through an orderly system of due diligence.

Lost Borrowers

Continued mailing of a series of statements or letters to the same address when it is clear that the borrower (or endorser) no longer resides there is not due diligence. If the address is no

longer correct, which may become evident by returned mail, ED requires a thorough search of all reasonably accessible information that may lead to the borrower's current address. This may include checking records in all appropriate institutional offices, checking the telephone directory or information operator in the city or town of the borrower's last known address, and long-distance telephone calls to the borrower if a telephone number has been obtained.

Use of ED's free skip-tracing service is also required. For this service, the Department uses the Internal Revenue Service Taxpayer Address Request Program to provide addresses to institutions participating in the NDSL program. The institution submits the borrower's full name and social security number and the IRS provides the latest address furnished by the taxpayer on his or her tax return.

Institutions may submit skip-tracing requests in the form of typed or computer listings, punch cards, or magnetic tape. Responses to tape submissions are returned on tape; all other responses are on computer listings. A transmittal form must accompany all submissions to identify the material as a submission to the NDSL IRS Skip-Trace System and to state the number of requests submitted, the institution's number (the four-digit campus-based program serial number that appears as the last four digits of the document number on the institution's FISAP), the return address, and the name and telephone number of a contact person within the institution who can aid in reconciling shipment problems (Exhibit NDSL-45).

IRS skip-tracing requests should be sent to: OSFA Service Center, P.O. Box 8594, Capitol Heights, MD 20743. About six to eight weeks are required for requests to be processed and the IRS does not process requests during January. Since it requires several months after tax returns are submitted in the spring for address information to be brought up-to-date, the address given an institution is often a year or more old.

If the institution is still unable to locate a borrower, it must engage the services of a commercial skip-tracing organization or perform equivalent skip-tracing activities with its own personnel.

If the borrower's address is located, the institution must immediately contact the borrower for the purpose of collecting amounts past due (Exhibits GEN-34 and GEN-35). The following addresses can be used for tracing borrowers who are or have been in the military service:

Army
Military Personnel Center
Enlisted Records
Fort Benjamin Harrison
Indiana 46249

Navy
Department of the Navy
Bureau of Naval Personnel
Washington, DC 20370

Air Force
United States Air Force
Worldwide Locator
Randolph Air Force Base
Texas 78184

Marine Corps
Headquarters
United States Marine Corps
Personnel Locator
Washington, DC 20380

No longer in service:

Army, Air Force, Navy, Marine Corps
National Personnel Records Center
General Services Administration
9700 Page Boulevard
St. Louis, MO 63132

If the borrower is not located through the skip-trace, the loan must be transferred for collection or litigation. The collection agency or attorney must then attempt to locate the borrower through skip-tracing. Finally, the loan may be assigned to ED for collection.

Billing Services

Many institutions find using a billing service advantageous, as it eliminates the need to staff a collections office and usually provides a better and more consistent system of follow-up. Each institution should carefully consider its needs and make its decision based on service, cost, reports provided, and promptness of returning to the institution the money collected from borrowers.

If a billing firm is used, it may perform only routine billing services. The firm is permitted to make preliminary or routine decisions regarding cancellation and deferment, but it must inform the borrower that cancellation and deferment are subject to approval by the institution, which alone is responsible to ED for collecting the money it has loaned. Thus, the institution must make decisions about collecting, cancelling, or deferring loans and all decisions concerning acceleration. Any action taken by a billing service with regard to acceleration must be in accordance with standing instructions or guidelines from the institution. Activities of the billing service must be monitored by the institution, which

may obtain copies of processed forms or have original requests for cancellation, deferment, etc., routed through the institution so that these transactions can be reviewed for conformance to regulations.

The 1981 Regulations address four issues regarding the use of billing services:

1. If an institution uses a billing service, the function of such service must be limited solely to the performance of ministerial acts. The institution's ultimate responsibility to make determinations relative to making and collecting loans and its decisions relative to cancellation and deferment of loans cannot be delegated.
2. If a billing service is used, it may not deduct its fee from funds it receives from borrowers.
3. The billing service must provide the institution with at least a monthly documentation of its charges for skip-tracing activities and telephone calls.
4. If an institution uses a billing firm, it may not use a collection agency that owns or controls, or is owned or controlled by a corporation, partnership, association, or individual that also owns or controls the billing firm.

Loan Records

Regulations require that a collection history be maintained for each overdue borrower showing date, nature, and result of each contact with borrower or endorser. This includes retaining copies of all correspondence (other than form letters) addressed to, or original letters received from, borrower and endorser. If an institution uses an automated or manual billing system, copies of the "nonprogrammed" contacts, such as a response to a borrower inquiry, should be maintained. Copies of the "programmed" contacts need not be maintained for each borrower; a representative sample is sufficient if the record indicates when this contact was mailed—for example, a sample of the type of billing notice mailed at each point in the sequence of notices, and a notation on the printout indicating when the notice was sent.

Interrupting the Billing Process

The billing process may be interrupted if the borrower qualifies for cancellation, postponement, or deferment, which are described below. It is the borrower's responsibility to submit a timely request for deferment, postponement, or cancellation and each request must be properly certified by a person with authority to attest to the borrower's status.

Deferments

Three parties are involved in all deferments, except those for extraordinary circumstances. Each person has specific responsibilities.

Borrower. To receive deferments, borrowers must apply for them by obtaining a "request for deferment of repayment" form from the lending institution and submitting the form when the first repayment installment is due. The form must be filed at least once a year for as long as deferment can be claimed. If the borrower's deferment status changes, he or she must immediately report the change to the lending institution (Exhibit NDSL-46 and accompanying instructions).

Verifying official. For student status deferments, the institution's registrar must certify the minimum half-time enrollment requirement. For military, Peace Corps, VISTA, other volunteer service, or Commissioned Corps service, an authorized official of the appropriate organization must certify the service period. For temporary total disability, an affidavit from a qualified physician is required. For internship, proof from the intern-employing firm must be provided.

Institution. The institution must make sure the borrower qualifies for deferment, based on regulatory requirements. This includes making sure that periods requested are correct, that they do not exceed the statutory maximum length, and that forms have been certified by the proper official. The institution then approves or disapproves deferment forms, makes a record of its decision, and files the forms.

Both Defense and Direct Loan notes contain provisions for deferment of payments. Provisions are identical in the two types of notes except as noted below. As a general rule, interest does not accrue and installments on principal need not be paid on either Defense or Direct Loans under the following circumstances:

1. *Student status.* During periods in which the borrower is at least a half-time student at an institution of higher education or a comparable institution outside the United States approved for this purpose by the Secretary of Education. However, a borrower attending only a summer session is not eligible for deferment. There is no limitation on the number of times a borrower may receive a student deferment. If there is any question about comparability of the foreign institution, the lending institution should refer to the

"World Education Series," published by the American Association of Collegiate Registrars and Admissions Officers (AACRAO) and available from the association at One Dupont Circle, Suite 330, Washington, D.C. 20036.

The basic document used by ED to determine if an institution outside the United States qualifies as comparable is the list of foreign institutions approved under the GSL program to accept American students with Guaranteed Student Loans. If there is a question about an institution's eligibility, the full name and address of the institution should be sent to ED for approval.

A borrower may request student deferment for either a full academic year or a portion of the academic year. The borrower's deferred status applies to the actual period of eligibility for deferment (such as one year, three months, or six months). If the borrower's request is approved, deferment will begin on the date of eligibility (enrollment date) and end on the date the borrower terminates enrollment for the specified academic year. However, if the borrower is a student for the complete academic year, a full twelve-month deferment must be granted. As an example, if a student attends school from the beginning of the fall session and continues as a student through the end of the spring session, no payment will be required during the full twelve months.

2. *Military or Public Health service.* During periods in which the borrower is a member of the Armed Forces of the United States (on full-time active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard) or serving as an officer in the Commissioned Corps of the Public Health Service, the borrower may receive a maximum of three years of deferment. The Public Health Service deferment is effective for loans granted on or after October 1, 1980.

3. *Peace Corps service.* During periods in which the borrower is serving in the Peace Corps, he or she may receive a maximum of three years of deferment.

4. *VISTA service.* During periods in which the borrower is serving in VISTA (established by the Domestic Volunteer Act of 1973), he or she may receive a maximum of three years' deferment.

5. *Volunteer service in tax-exempt organization.* During periods in which the borrower is in service, comparable to service referred to in (3) and (4) above, as a full-time volunteer for an organization that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1954, he or she may receive a maximum of three years' deferment; this is effective for loans granted on or after October 1, 1980.

To receive this deferment, the borrower must provide the lender with a statement from an official of the borrower's volunteer program certifying that the:

a. Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1954.
b. Borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions.
c. Borrower's compensation does not exceed compensation received by a full-time volunteer in the Peace Corps or in a program administered by the ACTION agency (compensation includes a subsistence allowance, necessary travel expenses, and stipends).
d. Borrower, as part of his or her duties, does not give religious instruction, conduct worship services, engage in religious proselytizing, or engage in fundraising to support religious activities.
e. Borrower has agreed to serve on a full-time basis for a term of at least one year.

The statement should include the period to be covered by the deferment.

6. *Internships.* During periods in which a borrower is serving an internship, the successful completion of which is required to receive professional recognition (such as a state license or certificate or some other general indication of reaching professional level) for beginning professional practice or service. Internships may not be a training period for a particular firm or company. The borrower may receive a maximum of two years of internship deferment. This type of deferment is effective for loans granted on or after October 1, 1980.

To obtain an internship deferment, a borrower must provide the institution with a statement from an official of the internship (or residency) program stating that the borrower is in fact an intern in one of the following approved professions:

Medicine
Osteopathic Medicine
Veterinary Medicine
Chiropractic Medicine
Dentistry

Optometry
Public Health Administration
Pharmacy
Podiatry
Clinical Psychology
Engineering
Prosthetics
Marriage, Family, and Child Counseling
Speech Pathology and Audiology
Certified Public Accountancy
Architecture
Dietetics
Physical Therapy
Clinical Pastoral Education Residency
Music Therapy
Medical Technology
Occupational Therapy
Orthotics
Interior Design
Psychodrama, Sociometry, or Psychotherapy

If an institution is aware of another profession requiring an internship, it should check with ED to see if it may be eligible for a deferment.

7. *Temporary disability*. During periods in which the borrower is temporarily disabled, as established by sworn affidavit of a qualified physician, or during which the borrower is unable to secure employment because he or she must care for a spouse who is so disabled, the borrower may receive a maximum of three years' deferment; this is effective for loans granted on or after October 1, 1980.

To obtain this deferment, the borrower must provide the lender with an affidavit from a qualified physician certifying that the borrower or the borrower's spouse is temporarily totally disabled. For purposes of this provision, a borrower is temporarily totally disabled if by reason of injury or illness he or she cannot be expected to attend an eligible institution or to be gainfully employed during an extended period of recovery from such injury or illness. The same definition applies to a spouse; however, in addition, the spouse must require continuous nursing or other similar services, thus preventing the borrower from obtaining gainful employment (Exhibit NDSL-47).

8. *Hardship*. If a borrower is unable to make scheduled payments because of extraordinary circumstances, he or she may apply for a "hardship deferment." *Interest continues to accrue during a hardship deferment*. Hardship cases include those in which a borrower is ill for an extended period of time, is unemployed, incarcerated, classified as missing in action, working at a subsistence salary, taking less than a half-time load of courses creditable towards a degree, etc. In such cases, an institution may either defer repayments or allow the borrower to make smaller repayments. However, whether repayment is deferred or revised, interest continues to accrue.

If the institution revises the borrower's Defense Loan repayment schedule and that change would extend the repayment period beyond ten years, the institution must notify ED. The institution must also receive ED approval before extending the repayment period for Direct Loans.

Provisions for deferring or revising repayment periods are different if the borrower has a *Direct* Loan *and* if the institution uses the minimum monthly repayment rate. In this circumstance, the institution may defer repayments or revise a repayment schedule for up to one year at a time. At the end of each one-year period, the institution reviews the borrower's status. The institution may not defer the loan or revise the repayment schedule if the repayment period would be longer than ten years, without ED approval.

In some cases, a borrower may adequately inform the institution by telephone of his or her financial situation. A record of that telephone conversation is sufficient documentation unless the institution questions the accuracy of the information. In that case, the institution should request that the borrower submit specific details in writing of the reason for the request (Exhibit GEN-22). On receipt of such information, the institution can make a determination and send the borrower a letter approving or disapproving the deferment (Exhibit GEN-23).

9. *Less than half-time attendance*. For Defense Loans only, the institution may provide that installments need not be paid during any period or periods aggregating not in excess of three years, during which the borrower is enrolled and in attendance as less than a half-time student at an institution of higher education, taking courses that may be applied toward a degree. The institution may also provide that any such period will not be included in determining the ten-year period during which repayment must be completed, but interest continues to accrue during any such period.

Deferment Special Considerations

Following are special considerations concerning deferment rules:

1. A loan in deferred status is not considered delinquent even if it was past due at the time deferment was granted.

2. On completion of the borrower's eligible period of deferment, his or her next payment

becomes due on the next regularly scheduled repayment date if the loan was granted before October 1, 1980. If the loan was granted on or after October 1, 1980, the next payment will not be due until six months after completion of the deferment period.

3. A borrower should not request a deferment prior to the expiration of his or her grace period. He or she is entitled to nine months' grace period (six months on loans after September 30, 1980), when no payments are due, and does not need a deferment until this period ends. The deferment period, by definition, does not begin until loan repayments become due.

4. If a borrower submits a request for deferment subsequent to the eligible status (for example, a deferment requested for prior years), the institution should accept the forms and make the proper determinations.

5. Based on guidelines established by the Secretary of Education, a borrower who has been determined to be a low-income individual may have the repayment period extended beyond ten years (see section "Repayment From Low-Income Borrowers," p. 38). The maximum extension is ten years, making possible a 20-year repayment period. The institution should retain information justifying the low-income status of the borrower and the repayment schedule should be adjusted accordingly.

6. Section 501(c)(3) of the Internal Revenue Code of 1954, for purposes of deferment for volunteer service in tax-exempt organizations, defines these organizations: "Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office."

7. Deferment may be granted for conscientious objectors who are enlisted in the Armed Forces.

8. Student deferment may be granted to a borrower who is a medical intern if the medical college actually enrolls the borrower in courses of study and considers him or her to be a half-time student. As a rule, hospitals where internships and residencies are performed are not considered to be eligible schools. If a college or university registrar certifies that the intern or resident is at least a half-time student at that institution, he or she would be eligible for student deferment.

9. Deferment during student status would be the same for co-op students (those enrolled in programs alternating periods between school and a job) as it is for regular students, provided the institution considers these students to be enrolled during their working period(s).

Cancellations

The NDSL program contains loan cancellation provisions that apply to service as a teacher, in a Head Start program, and in the military. Cancellation provisions are also granted for death, disability, and bankruptcy.

Although some cancellation provisions vary, depending on whether the borrower has a Defense or Direct Loan, the following apply to any loan:

1. No portion of any loan may be cancelled for services the borrower performed before signing the promissory note, or during the period for which the loan was awarded.

2. The borrower must apply for teacher or military cancellation by obtaining the appropriate cancellation form from the lending institution and submitting it on time.

3. For each year of loan cancellation for military service, the borrower is considered to have also used one year of entitlement to deferment for military service.

4. Teacher cancellation is based on the duties presented in an official position description, not on the position title. An institution may refuse cancellation for simultaneous teaching in two or more schools if it cannot easily determine that the teaching was full-time.

There are three parties involved in all cancellations:

Borrower. To receive a cancellation, the borrower must obtain a cancellation request form from the lending institution and apply for the cancellation by submitting the form at the end of each year of eligibility. This form should be submitted at least once a year for as long as

cancellation can be claimed (Exhibit NDSL-48 and accompanying instructions).

Certifying official. An authorized official in the school system or Head Start program where the borrower teaches must sign the form, certifying teaching service. For military cancellation, the form should be certified by the commanding officer. In the case of death, a death certificate is needed; for disability, a statement from a qualified physician; and for bankruptcy, an official copy of the discharge.

Institution. It is the lending institution's responsibility to determine whether borrowers are entitled to have any portion of their loans cancelled, based on appropriate documentation. This responsibility cannot be delegated. Approval or disapproval must be indicated on the form, a copy sent to the borrower, and the form filed in the borrower's folder.

Following are cancellation provisions and requirements:

1. Teaching and Head Start

Certain terms used with respect to teaching are defined below.

Academic year or its equivalent. This means (1) for elementary and secondary school teachers and teachers of handicapped children in a public or nonprofit elementary or secondary school system, a school year or two complete and consecutive half years from different school years, excluding summer sessions, falling generally within a 12-month period; and (2) for teachers in institutions of higher education, the equivalent of two semesters, two trimesters, or three quarters generally falling within a 12-month period, or at least 900 clock hours for each program in institutions using clock hours.

Elementary school. This means a school that provides elementary education, including education below grade one, as determined under state law, or if such a school is not in any state, as determined by the Secretary of Education.

Full-time teacher. This refers to a person professionally employed on a full-time basis by, and to carry out the curriculum of, (1) an elementary school, (2) several elementary or secondary schools within the same local school district or local educational agency, (3) a public or nonprofit private elementary or secondary school system, (4) a public or nonprofit private elementary or secondary school system with regard to the teaching of handicapped children, (5) an institution of higher education, or (6) a consortium of institutions of higher education. This term includes persons engaged in classroom instruction and persons otherwise engaged in a professional capacity in providing direct and personal services to students, which services have the objective of furthering educational development of such students enrolled in such school(s) or institution(s).

This term, with respect to a teacher in an institution of higher education, does not include persons engaged in teaching any program of elementary or secondary education unless the program is specifically designed to prepare high school graduates for a program of postsecondary education.

Handicapped children. These are children who are mentally retarded, hard of hearing, deaf, speech-impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired, or other health-impaired children or children with specific learning disabilities who, by reason thereof, require special education and related services.

The term "special education" does not necessarily mean education of the handicapped, although it often does. For example, a program designed for exceptionally bright or gifted children may be classified as special education, but not meet the definition of "handicapped" as defined in section 602(1) of the Education of all Handicapped Children Act, P.L. 04-142.

Cancellation for teaching children with specific learning disabilities (including remedial program for teaching slow learners) is effective beginning with teaching for the 1980-81 academic year, and is applicable to all outstanding loans. Teaching of children with specific learning disabilities performed prior to the 1980-81 academic year does not qualify for cancellation.

Specific learning disability. This is a disorder in one or more of the basic psychological processes involved in understanding or in using language spoken or written which may manifest itself in an imperfect ability to listen, think, speak, read, write, spell, or do mathematical calculations. The term includes such conditions as perceptual handicaps, brain injury, minimal brain dysfunction, dyslexia, and developmental aphasia. The term does not include children who have learning problems which are primarily the result of visual, hearing, or motor handicaps, or mental retardation, or of environmental or economic disadvantage.

Local educational agency. This is a public board of education or other public authority

legally constituted within a state for either administrative control or direction of, or to perform a service function for, public elementary or secondary schools in a city, county, township, school district, or other political subdivision of a state, or such combination of school districts or counties as is recognized in a state as an administrative agency for its public elementary or secondary schools. Such terms also include any other public institution or agency having administrative control and direction of a public elementary or secondary school.

Secondary school. This means a school that provides secondary education as determined under state law, or if such school is not in any state, as determined by the Secretary of Education, except that such education does not include any education provided beyond grade 12.

State education agency. This refers to a state board of education or other agency or officer primarily responsible in a state for the supervision of public elementary and secondary schools, or if there is no such officer or agency, an officer or agency designated by the governor or by state law (Exhibit NDSL-49).

Defense Loans

1. *General—10% rate.* Defense Loan borrowers are entitled to receive cancellation of principal at the rate of 10% of the loan per year plus interest for each academic year, or two *complete* half years from consecutive academic years (spring and fall) of full-time teaching in public or private nonprofit elementary or secondary schools, or in institutions of higher education in the United States and Department of Defense schools overseas. No more than 50% of the loan (five years) may be cancelled for such teaching. The years need not be consecutive, nor must they be the first five years of the repayment period. There is no cancellation for teaching in State Department or mission schools overseas.

2. *Low-income elementary or secondary.* Defense Loan borrowers are entitled to receive cancellation of principal at the rate of 15% of the loan per year plus interest for each academic year, or two complete half years from consecutive academic years (spring and fall) of full-time teaching in public or private nonprofit elementary or secondary schools listed in ED's *Directory of Designated Low-Income Schools for Teacher Cancellation Benefits* for the year in which the teaching service is performed (Code 1 and Code 2 schools: see p. 48). No more than 25% of the total schools in a state may be included on the list for any given year unless all the schools on the list have low-income enrollments in excess of 50% of their total enrollments. The entire loan may be cancelled for such teaching.

3. *Handicapped.* Defense Loan borrowers are entitled to receive cancellation of principal at the rate of 15% of the loan per year plus interest for each complete academic year, or two complete half years from consecutive academic years (spring and fall) of full-time teaching of handicapped children in a public or private nonprofit elementary or secondary school system in the United States. The entire loan may be cancelled for such teaching. Full-time teaching of the homebound (nonclassroom) in a school system would be considered teaching the handicapped. The majority of those being taught must meet the definition of handicapped as defined by the Act (see p. 46) and regulations. Whether or not a school for the handicapped provides elementary and secondary education under state law is determined by appropriate state officers, usually by the state department of education. Cancellation for full-time teaching of the handicapped is available only for teaching beginning with academic year 1967-68.

4. *Combined 10% and 15%.* Teaching in non-low-income schools or institutions of higher education and low-income schools and teaching of handicapped children may be combined to result in cancellation of the entire Defense Loan through combining 10% and 15% rates of cancellation. The borrower is entitled to five 10% cancellations regardless of how many 15% cancellations he or she receives, up to 100% of the loan.

Direct Loans

1. *General.* Direct Loan borrowers are entitled to receive cancellation if they are full-time teachers in public or private nonprofit elementary or secondary schools listed in the *Directory of Designated Low-Income Schools for Teacher Cancellation Benefits* for the year in which the service is performed (Code 1 and Code 3 schools: see p. 48). No more than 50% of the total schools receiving Title VII assistance in a state are eligible in any year. Direct Loan borrowers who are full-time teachers of handicapped children in public or private nonprofit elementary or secondary schools in the United States are also entitled

to receive cancellation. The cancellation rate for both types of teaching is as follows:

Cancellation of principal at the rate of 15% for the first and second years, 20% for the third and fourth years, and 30% for the fifth year, when the entire loan is cancelled. All accumulated interest is also cancelled each year.

2. *Head Start.* Direct Loan borrowers are also entitled to receive cancellation if they serve as professional members of a Head Start program for a complete academic year, or two complete half years from consecutive academic years (spring and fall) and the borrower's salary is not more than that of a comparable employee working in the local educational agency. The cancellation rate is 15% of principal per year, plus interest. It does not climb to 20% in the third year or 30% in the fifth year, as do the two other Direct Loan teacher-cancellation provisions.

Defense Loan borrowers do not normally qualify to receive *any* cancellation for serving on the staff of a Head Start program. Head Start programs are prekindergarten programs; thus, Defense Loan borrowers teaching in prekindergarten programs would qualify for cancellations only in states that recognize prekindergarten programs as being a statutory part of that state's elementary education program.

Directory Coding

There are statutory differences between a Defense Loan low-income school and a Direct Loan low-income school. State educational agencies designate 25% of their public and private nonprofit elementary or secondary schools as Defense Loan low-income schools but can designate only schools having in excess of 30% low-income enrollment as Direct Loan low-income schools. Up to 50% of the total schools in a state are eligible in any year. Therefore, it is necessary to code the official directory list of low-income schools as follows:

Code 1. A school in the top 25% in low-income enrollment *and* having in excess of 30% low-income enrollment. Teachers in such schools are eligible to receive *both* Defense and Direct Loan cancellations.

Code 2. A school in the top 25% in low-income enrollment, but not having in excess of 30% low-income enrollment. Teachers in such schools are eligible to receive Defense Loan cancellation *only*.

Code 3. A school having in excess of 30% low-income enrollment, but not in the top 25% of low-income enrollment. Teachers in such schools are eligible to receive Direct Loan cancellation *only*.

The title of the person who determines which schools are to be included on the low-income list varies widely from state to state. Therefore, any inquiry about inclusion or omission of a school should be directed to the "Chief State School Officer."

Teaching Special Considerations

The following special considerations may help in determining a borrower's eligibility.

1. Teaching part-time in two or more institutions may constitute full-time teaching if the borrower can obtain appropriate certification that he or she has taught full-time. Examples:

a. Under a consortium agreement, a borrower may be employed by the consortium and teach at member institutions. The consortium would provide the certification of full-time teacher.
b. Two or more institutions could by mutual agreement arrange to have one or the other employ the borrower on a full-time basis, and then hire out his or her services to other institutions involved in the mutual agreement. The employing institution would certify the borrower's full-time status.
c. A borrower can be considered to have been a full-time teacher for an academic year if he or she can obtain appropriate certification that he or she taught in two half-time teaching positions for a complete academic year in two elementary or secondary schools or in two institutions of higher education.

2. Under NDSL regulations, a borrower who is both a full-time student *and* a full-time teacher is, like anyone else, entitled to cancellation provided he or she is entitled to cancellation at the end of a complete academic year of teaching with respect to any loan made *before* commencement of the academic year of teaching on the basis of which cancellation is predicated.

3. A borrower who is simultaneously a full-time teacher and a half-time student is entitled to cancellation at the end of a complete academic year of teaching with respect to any loan made

before commencement of the academic year of teaching on which cancellation is predicated. Borrowers may not cancel loans received concurrently with service performed as a full-time teacher.

4. A borrower employed by the Cooperative Education Service is not considered eligible for loan cancellation, based on a ruling of the Office of General Counsel in a legal opinion dated April 6, 1972, in that instruction provided by the Service is not on the postsecondary level and that the location of the instruction is not relevant. (The Smith-Lever Act of May 8, 1914, which established the Extension Service, provided for giving instruction in agriculture, home economics, and related subjects; the Service is usually established as a unit of a land-grant college or university. While members of the Service are subject to institutional supervision and employment practices, they are also federal employees for purposes of health and retirement benefits.)

5. For purposes of loan cancellation, a correctional institution does not meet the definition of providing special education for the handicapped unless the majority of inmates meets the statutory definition of "handicapped."

6. Use of the term "system" does not extend cancellation benefits to persons who may fall under the broadest definition of the word "teacher" and who are employed in positions above local or county jurisdictions. An exception to this would be the borrower's rendering direct and personal services in a school setting, thereby meeting the definition of "full-time teacher."

7. A borrower can receive Defense Loan cancellation for teaching service performed in a foreign school only if that school is conducted by the Department of Defense for dependent children of military personnel.

8. A borrower cannot receive teacher cancellation for teaching service performed in a Job Corps project unless the teaching is considered to be conducted in an elementary or secondary school or school system.

9. For a Manpower training program to provide eligibility for loan cancellation, it must be established that the training program in which the borrower is engaged provides either "secondary education as determined under state law" or that the borrower is teaching in an "institution of higher education" (for Defense Loans only) and that the borrower is performing duties of a full-time teacher as defined in the regulations.

These programs, for the most part, provide adult education that is not covered by Section 205 of the National Defense Education Act. Such training is often conducted in public secondary schools or vocational schools, or on the job, or a combination thereof. However, the fact that these school facilities (or their administration) are used does not determine whether or not the training program constitutes "secondary education," or education in an "institution of higher education." Unless the teaching service meets this definition, it does not qualify a borrower for teacher cancellation.

10. There is no requirement that a borrower must teach a given number of hours a day to qualify as a full-time teacher. The criterion for a full-time teacher is whether the employing institution considers him or her to be full-time for purposes of salary, tenure, academic rank, and so on.

11. When a borrower is prevented by illness or pregnancy from fulfilling his or her obligation to complete the academic year, cancellation may be allowed under the following conditions:

a. Borrower must have completed the first half of the academic year and further must have begun teaching the second half; and
b. The hiring authority must have considered the borrower, for purposes of salary increment, tenure, and retirement, to have fulfilled his or her contract for the academic year.

12. A borrower may receive teacher cancellation for teaching service performed in a preschool or prekindergarten program only if the state considers the program to be a part of its elementary education program.

13. A borrower may receive teacher cancellation for services performed in a private academy if the private academy has a nonprofit status with the Internal Revenue Service.

14. Teachers' aides were not considered eligible for teacher cancellation prior to 1973 because it was felt that the functions of a teacher's aide were mostly custodial (such as keeping order or supervising play or rest periods). However, under certain conditions, teachers' aides may be considered eligible for teacher cancellation. The aide must meet the definition of a "full-time teacher." He or she must have a baccalaureate degree and be a certified professional recognized by the state as a full-time employee rendering direct and personal services in carrying out the instructional program of an elementary or secondary school.

15. An elementary and/or secondary institution need not necessarily be accredited to qualify a borrower for teacher cancellation. The requirement for a private school is that it be nonprofit and that it be determined by state law as providing elementary and/or secondary education.

16. The Higher Education Amendments of 1966 included the Trust Territory as a "state" for cancellation purposes, thereby qualifying teachers for the 10% rate beginning with the 1967-68 year, as well as the 15% rate for "Priority List Schools." Beginning with the 1968-69 year, all elementary and secondary schools in the Trust Territory qualified for the 15% cancellation rate as "low-income schools" under the Defense Loan program. Eligible schools for Defense and Direct Loan cancellations are listed in the directory (see p. 48). Peace Corps teachers in the Trust Territory who meet the requirements for cancellation are eligible.

17. Volunteer teachers are not considered professionally employed on a full-time basis and therefore are not eligible for teacher-cancellation benefits.

18. A borrower may receive Defense Loan cancellation for teaching in a proprietary institution if the proprietary institution has a nonprofit status with the Internal Revenue Service.

19. A vocational rehabilitation counselor may qualify for teacher cancellation if his or her duties are performed within the framework of a public or private nonprofit elementary or secondary school (or system), or an institution of higher education, in an instructional and/or counseling capacity. If a majority of the students served meet the statutory definition of "handicapped," the applicable cancellation rate is that for teaching the handicapped.

20. Special education, as noted earlier, does not necessarily mean education of the handicapped; whether a learning-disabled person meets the statutory definition of "handicapped" depends on severity of impairment within the context of the definition in order to determine if the teaching service qualifies for "handicapped" cancellation benefits.

21. Admissions counselors, deans of admission, and directors of financial aid perform some duties that qualify as providing direct and personal services to students. However, to qualify for teacher cancellation, teaching service must be on a full-time basis. This means that 100% of job duties must involve providing direct and personal services to students. None of the three positions mentioned here meet this requirement; therefore, they are not eligible for cancellation.

22. A full-time financial aid counselor is eligible for Defense Loan cancellation if 100% of job duties involve providing direct and personal services to students.

23. A psychometrist measures psychological variables, such as intelligence, aptitude, and emotional disturbance and recommends a training program. A psychometrist working full-time in a school setting is eligible for a "handicapped" cancellation if the majority of students evaluated meet the statutory definition of "handicapped."

24. A psychologist working full-time in a school setting is eligible for "handicapped" cancellation if a majority of the students counselled meet the statutory definition of "handicapped."

25. A school nurse employed by a school is not considered to be eligible for teacher cancellation. As a rule, a nurse provides medical rather than teaching service.

26. A social worker, working full-time in a school setting, and providing direct and personal services to students, is eligible for teacher cancellation if the services performed relate to the student's interaction with his or her environment.

27. All schools in which a full-time teacher works must be listed in the official directory in order for the teacher to be eligible for low-income school cancellation.

28. If the full year of teaching service spans two academic years (spring of one year and fall of the next year), the school must be listed in the official directory for both years in order to be eligible for low-income school cancellation.

29. Delinquent or defaulted loan amounts are not eligible for cancellation unless the eligible service was performed and default would not have occurred if postponement/cancellation forms had been filed on a timely basis. Therefore, unless this criterion is met, the institution does not cancel delinquent principal or interest that accrued as a result of that delinquency.

Example: A borrower has not paid on an NDSL since September, 1977. The borrower performed eligible teaching service from September 1977 until June 1979 in a school listed in the official directory. The borrower did not file cancellation requests until now. It is March 1980.

The borrower may receive cancellation for the two years of teaching service. If the borrower has not performed a service eligible for cancellation since June 1979 the borrower's account has

been in default since that date. The borrower cannot perform teaching or other eligible service in the future and cancel the defaulted amounts that accrued from June 1979. An institution may attempt to collect the delinquent/defaulted amount by asking the borrower to repay the amount before he or she is granted any earned cancellation benefits.

If the borrower defaulted on a loan, and the loan has been in default for so long that the loan would have been paid off if the borrower had made timely payments, the borrower cannot receive any deferment/cancellation for work performed after the note would have paid off.

Example: A borrower received a $1,000 NDSL. The borrower left school in 1972. The note would have been paid off in 1976 if the borrower had made timely payments. The borrower taught handicapped students from 1977 to 1979 and is requesting cancellation for this teaching service.

The borrower cannot use teaching service performed from 1977 to 1979 to cancel any of the loan.

If an institution accelerates payment of a defaulted loan, the borrower is not entitled to deferment/cancellation for any eligible service performed after the date of acceleration. Any work that was performed prior to the date of acceleration would be given consideration for deferment/cancellation.

30. A borrower may earn cancellation during the grace period. For instance, a borrower may graduate in August and teach from September through the following June in a school that entitles the borrower to receive 15% cancellation. In that case, 15% of the borrower's loan is cancelled before the first repayment is due (if repayments are scheduled quarterly). Since cancellation covers a full twelve months and the grace period lasts only nine months, some interest is cancelled. The amount of interest cancelled is the interest that accrued in the last three months (June to August) of that year. This applies to military cancellation and to teacher cancellation.

2. *Military Service*

Defense Loans

Defense Loan borrowers are entitled to receive cancellation of principal at the rate of 12.5% per year plus interest for each complete year of service in the Armed Forces of the United States (Army, Navy, Air Force, Marine Corps, or Coast Guard). The borrower must have received the loan(s) during the period from April 14, 1970, through June 30, 1972. The military service must have (1) followed obtaining the loan and (2) begun after June 30, 1970 (Exhibit NDSL-50). No more than 50% cancellation (four years at 12.5% per year) may be given Defense Loan borrowers for their military service. Deferment and cancellation for military service run concurrently.

Direct Loans

Direct Loan borrowers are entitled to receive cancellation of principal at the rate of 12.5% per year plus interest for each complete year of service in the Armed Forces of the United States (Army, Navy, Air Force, Marine Corps, or Coast Guard) *if the borrower serves that complete year in an area of hostilities*. Because the italicized statement is a statutory requirement, it is likely that very few, if any, Direct Loan borrowers have qualified for this cancellation since 1972. There have been no areas of hostilities since 1973. An "area of hostilities" should not be confused with military service that qualified the member of the Armed Forces for other forms of special pay, such as flight pay or service overseas in areas where additional pay is given for a dependent's living allowances. Maximum cancellation is 50% of the amount borrowed.

Military Special Considerations

The following special considerations should be noted:

1. A borrower may not receive military cancellation for "alternate duty service." Borrowers are not considered members of the Armed Forces of the United States if, as members of reserve components, they are engaged in the usual and ordinary temporary Reserve or National Guard activity (such as evening, weekend, and summer training sessions) as distinguished from borrowers who, although members of Reserve components, are actually on sustained, full-time active duty. Service in one of the "uniformed services" (such as the Public Health Service, Coast Guard, and Geodetic Survey) is not eligible.

2. A borrower cannot receive cancellation for less than a complete year of military service.

3. When a borrower has served more than one year but less than two years (such as 18 months), she or he is entitled to cancellation of a complete year and proration for that part of the second

year that was completed (that is, 12.5% for twelve months and 6.25% for six months).

4. An interruption in military service does not eliminate the borrower's eligibility for receiving military cancellation benefits for the borrower's subsequent military service. Thus, a borrower could, for example, serve in the Armed Forces for two years, cancelling 25% of his or her loan, terminate military service, and then later, during the repayment period, re-enlist and again receive cancellation for military service up to an additional 25% of the loan so that he or she ultimately would have received the maximum allowable cancellation for military service.

3. Death

The outstanding loan principal plus all accrued interest and any penalty charges must be considered cancelled when proof of a borrower's death, such as an official copy of the death certificate, is provided to the lending institution. If the institution is unable to secure a death certificate for a missing person, it should note that in most states after seven years it is assumed that the person is dead. In the meantime, the borrower is considered to be in default and the loan would qualify for assignment to ED. The borrower also would be considered dead if his or her assets or will were probated by the state, even though the institution did not receive a copy of the death certificate.

4. Disability

The outstanding loan principal plus all accrued interest and any penalty charges may be cancelled at the request of the borrower or his or her representative if the lending institution determines that the borrower has become permanently and totally disabled. Permanent and total disability means the inability to work and earn money because of a medically determinable impairment, if that impairment is expected to continue for an indefinite period or result in death. Even a 95% disability is not eligible because of specific statutory language requiring permanent and *total* disability. Determination must be made on the basis of medical evidence provided by the borrower or his or her representative. Receipt of social security disability benefits does not automatically qualify a borrower for permanent and total disability cancellation.

For a physician's convenience, the institution may prepare a form specifically designed for cancellation, defining permanent and total disability according to regulations. The physician may then simply sign a statement certifying that in his or her best medical judgment, the patient is permanently and totally disabled (Exhibit NDSL-51).

There are difficult and unusual cases, such as hospitalized psychiatric cases. If hospitalization continues over a period of years, the institution may reasonably determine that the borrower is permanently and totally disabled and cancel the loan. A borrower or representative may resubmit a request if he or she has additional or more current medical evidence.

5. Bankruptcy

Public Law 96-56, effective October 1, 1979, amended the Bankruptcy Act and made educational loans funded in whole or in part by a governmental unit or a nonprofit institution of higher education nondischargeable unless:

a. The debt first became due earlier than five years before the bankruptcy petition was filed, or
b. Making payment on the loan would cause an undue hardship on the debtor and the debtor's dependents.

If an educational loan is eligible for discharge in a Chapter 7 bankruptcy, it is treated as a cancellation due to bankruptcy. If an institution receives partial payment under either a Chapter 7 or Chapter 13 bankruptcy, the remainder of the loan is treated as a cancellation for bankruptcy. In either case, the document needed to grant cancellation is the official "Discharge" from the bankruptcy court. (See chapter on "Student Loan Borrower Bankruptcy" for detailed information.)

Refunds

Regulations provide that nothing shall be construed to authorize the refund of any repayment of a loan except that, when an overpayment is made by a borrower as a result of an institutional error, a refund will be allowed. This implies that an institution should keep a borrower informed of any added benefits, such as cancellation provisions. If the borrower fails to take advantage of his or her entitlement and makes payment instead, the institution need not make a refund in order to grant cancellation.

Reimbursing Amounts Cancelled

Defense Loans. Each award year, ED reimburses each institution for its share of principal and interest cancelled for teaching or military service. Reimbursement is determined by the following calculation:

Total cancelled principal and interest multiplied by I/I + F = Institution's share of cancelled principal and interest. ("I" is the institution's capital contribution to the NDSL Fund; "F" is the federal capital contribution to the fund.)

Reimbursements for amounts cancelled on Defense Loans represent institutional funds and may be used at the institution's discretion. No reimbursements are made for cancellations due to death, disability, or bankruptcy.

Direct Loans. Each award year, ED reimburses each institution for principal and interest cancelled for teaching, military, or Head Start service. The institution must deposit its reimbursements into its NDSL fund. No reimbursement is made for cancellations due to death, disability, or bankruptcy.

Postponements

An institution may postpone loan repayments for a 12-month period if the borrower will be providing services eligible for loan cancellation or deferment. The borrower must file a postponement form (obtained from the lending institution) that is signed by a responsible official of the military agency, school, or postsecondary institution that will employ the borrower. A postponement provision can be incorporated into the cancellation or deferment form (Exhibits NDSL-46 and NDSL-48) or the institution may use one similar to that shown in Exhibit NDSL-52. The employer must describe the borrower's job, list the period of employment, and state whether the job will be full- or part-time.

If the borrower has received both a Defense and a Direct Loan, and is eligible for cancellation/deferment benefits on only one, the institution may postpone only repayments on the loan for which cancellation/deferment will be available.

An institution may not exercise minimum monthly repayment provisions on a note when the borrower has received a partial cancellation for the period covered by a postponement. If a borrower has received both a Defense and a Direct Loan, and only one can be cancelled, the amount due on the uncancelled loan is what the student would normally pay.

Collection Process

A distinction must be made between a loan that is overdue and a loan that is in default (as well as overdue). The term "default" should not be used to include borrowers whose repayments are simply overdue, and who are not avoiding repayment. For example, if a borrower is consistently making partial repayments toward the loan, obviously intending to repay it, he or she would not be considered in default.

On the other hand, a borrower who has not demonstrated a willingness to pay may be considered in default, which, according to regulations, means the failure of a borrower to make an installment payment when it is due or to comply with other terms of the promissory note. The institution may consider the entire unpaid balance to be in default and demand immediate repayment (acceleration of the loan) or it may consider only the amount overdue to be in default. (Regardless of how the loan is treated for collection purposes, the institution must report both the unpaid balance and the amount overdue on its annual fiscal operations report.)

If the borrower fails to provide a new address or supplies a false address, he or she has failed to comply with terms of the note and is in default. If, during the grace period, the borrower states that he or she does not intend to repay the loan, the borrower is not in default at that time. He or she must fail to make a payment or to comply with some other requirement of the promissory note to be in default. All borrowers are entitled by statute to the entire grace period. But if the borrower fails to comply with terms of the note, the institution may send the final demand letter as soon as the grace period is over, omitting the three overdue notices.

Should the borrower present a sufficiently strong case in writing to support a reasonable conclusion that he or she intends to repay the loan, the institution may determine that the borrower is not in default. If the borrower should default for a second time, it would be appropriate for the institution to act at once in sending the final demand letter and accelerating the loan.

If the institution is still unable to collect payments from the borrower after following the billing steps through the final demand letter, it must make an attempt to telephone or otherwise personally contact the borrower to determine

why he or she has not paid (see p. 21 in Chapter One).

If, after contacting the borrower, it is found that nonpayment is due to sickness, unemployment, or another legitimate reason, the institution may choose to grant a hardship deferment or to rewrite the repayment agreement to require payments which the debtor can afford.

If the debtor cannot be reached or would not qualify for a hardship deferment, the institution must hire a collection agency or firm, use litigation (sue the borrower), or use its own personnel to collect the amounts due.

Collection Firms

Collection firms are in business to collect debts. Their collectors are trained to work with debtors toward payment in full of outstanding debts. Each institution should consider using an outside firm even if an attempt to collect is made by institutional staff. (Use of collection firms is treated on pp. 18-20 of Chapter One.) Certain requirements stated in the regulations must be considered if a collection firm is used.

Bonding

If an institution hires an outside firm to collect a defaulted loan, the agency must either:

1. Be bonded in an amount to cover the amount of NDSL cash it has in its possession at any particular time; or
2. Deposit collected funds immediately on receipt in a bank account in the institution's name. This usually is referred to as a "lock-box" system. In this case, the institution sends the collection firm its fee; the firm does *not* deduct its fee from payment received from the borrower.

Institutional Responsibilities

After loans are given to an outside collection firm, the institution remains responsible for any decisions in regard to making, collecting, cancelling, or deferring payment on loans. Physical transfer of loans to a collection firm does not mean that an institution may legally assign the notes to the firm; the institution must retain ownership of the notes. The firm acts only as a representative of the institution.

Many collection firms have their own standard agreements, which give them wide latitude in collecting loans, but institutions are not required to sign such agreements. Terms of any agreement should be those that the institution desires and that conform with program regulations.

A loan placed with a collection firm continues to accrue interest. The agency must keep accounts up to date and add interest to the amount owed. If the collection firm fails to do this, the institution must either:

1. Add accrued interest itself,
2. Insist that the agency add accrued interest, or
3. Use an agency that will add accrued interest to amount owed.

When a borrower makes a payment on a note that was placed with a collection firm, the institution must calculate all accrued interest and apply payment first to this interest. The remainder is applied to the loan balance.

If the principal and interest outstanding on a loan are $10 or less, the institution may write it off, rather than carry out collection activities. If the balance is more than $10, the institution must arrange with the borrower to repay the balance.

If the collection firm under contract to the institution does not collect on out-of-state loans, those loans must be given to an agency that does. For example, by state law in some states, public institutions must turn over defaulted loans to the attorney general for collection and litigation. However, a state attorney general does not have authority outside the state. In such cases, the institution must hire a collection agency or a lawyer in the other state to collect on the loans.

Institutional Collection Activities

If an institution chooses to perform its own collection, it must use collection activities equivalent to those of a firm. Described below are some examples of these (also refer to pp. 20-22 in Chapter One).

1. Exhaust all possible means of contacting every defaulted borrower.
2. Complete each contact with a definite understanding and commitment from the borrower to pay.
3. Follow up promptly and decisively on every promise made by a borrower.
4. Note all information that will be of future use in handling the account.
5. Answer all inquiries from the borrower.

Information on the student's initial application for financial aid, such as that concerning relatives, prior schools attended, or credit references, may assist in locating the borrower and collecting the loan.

A principal tool of a collector is the telephone. Telephone collection contacts should be courte-

ous but firm and businesslike at all times. The collector should state the call's purpose and determine the reason for prior delinquency. A definite commitment to pay should be obtained from the borrower. The collector should follow up on all such promises to repay. For example, if a payment does not arrive when the borrower promised it would, the collector should call to discover the reason.

If the institution is unable to reach the borrower by telephone, but has a valid home address for him or her, the borrower should be contacted by mail.

The borrower may give various reasons for not repaying a loan. If he or she claims:

1. To be on welfare, he or she must provide proof.
2. To be ill, the borrower must provide verification by a doctor.
3. To lack immediate assets and/or income, the institution may wish to obtain a judgment to keep its claim alive.

The institution should ask for verification for *any* reason the borrower gives for not repaying a loan.

Compromising an Account

To "compromise" an account means to adjust or settle it by mutual agreement between borrower and institution.

Within the framework of regulations and agreement between the Secretary of Education and the institution, the lending institution is responsible for determining if an account should be compromised. Decisions must be made with the care appropriate to a fiduciary relationship. Thus, a compromise usually would be made on the advice of an attorney, after considering all practical matters and all legal points. Before compromising a debt, the institution should carefully consider these factors:

1. Cost of litigation, compared with debt size and likelihood of collecting if a judgment is obtained.
2. Debtor's present or future financial prospects (such as a low-paying job with poor prospects for a better position in the near future because of poor health).
3. Physical locale of the debtor in relation to the institution, which might make litigation difficult (for example, the borrower may reside outside the United States).
4. Possibility of any legal defenses the borrower may have that are beyond institutional control.

Normally, the institution should try to collect at least the total outstanding principal balance. Institutional records must always document the basis for each case in which a claim is compromised.

Accounting procedures on the annual federal fiscal operations report for a compromised note are to credit lines 11 ("Loan principal adustments") and 16 ("Interest income on notes") and debit line 27.1 ("Other costs or losses") for the principal and interest.

If an institution obtains a judgment against the borrower, this action may cause him or her to pay off the debt. Most states provide that, after a judgment has been obtained, the institution may acquire a copy of the borrower's tax return, which could help in determining his or her financial status. Judgments are good for ten years in most states and usually can be renewed. (See the chapter on "Suing a Defaulted Borrower" for information on litigation.)

Administrative Costs

All costs incurred by the institution in billing or using a billing service, except for costs of long-distance telephone calls in attempts to collect and costs of skip-tracing, are considered routine administrative expenses that may not be charged to the NDSL fund as other collection costs.

The administrative cost allowance for campus-based programs (SEOG, CW-S, and NDSL) is now figured on total institutional expenditures for all these programs. The allowance is calculated by taking 5% of the first $2,750,000 of expenditures, plus 4% of the next $2,750,000 and 3% of the remainder (expenditures over the initial $5,500,000). If the institution participates in the Community Service Learning Program (CSLP), it may include 10% of its CW-S expenditures under this program in administrative cost allowance calculation. The allowance must be used to offset costs of administering these programs.

The administrative cost allowance can be taken from one or more campus-based programs as long as loans or awards were made from the program or programs during the award year. In theory, the entire allowance could be taken from one fund (as long as student awards were made from that fund during the year), if other program funds were exhausted, or there was benefit in retaining other program funds for carry-over into

the subsequent year. However, to assist students as much as possible and make the best use of available funds, the allowance normally should be taken from the program(s) with the largest balance of unexpended funds. Institutions should consider that NDSL funds contain institutional money. If the allowance is drawn from such funds, the institution is partially charging itself for administrative costs.

Other Collection Costs

Once the collection process passes beyond the final demand letter, reasonable costs of collecting NDSLs become chargeable to the fund. Allowable charges include:

1. Skip-tracing. If the institution is performing its own equivalent skip-tracing activity, it may charge actual salary costs, but the cost may not exceed that of a commercial skip-tracing agency.
2. Collection agency bills. If the institution is performing its own equivalent collection activities, it may charge actual salary costs, but the cost may not exceed that of using an outside collection firm.
3. Telephone bills and employee time in completing telephone calls.
4. Reasonable litigation costs.

Costs listed above may not be charged to the fund if the borrower has paid them. Some promissory notes provide that the borrower must pay the attorney's fee and any charges necessary for collection of any amount not paid when due.

The institution must have documentation, such as telephone bills and collection agency bills, to support costs that are charged to the NDSL fund. The collection agency statement must list specific amounts collected and the amount it retains.

If the institution makes its own collections, it may charge to the fund costs incurred in collecting defaulted loans. These costs may not exceed the amount a collection firm would charge. Questions on chargeable expenses should be directed to the proper regional office (Exhibit NDSL-54). Some samples of equivalent collection costs are:

1. Salaries
2. Postage
3. Stationery
4. Space rental
5. Reasonable travel for attending court.
6. Telephone calls and personnel time for making them
7. Institutional costs incurred when a borrower files for bankruptcy
8. Computer costs if due to collection rather than billing

Assignments

In 1979, a new program at ED allowed institutions to clean their books of uncollectible loans, which gave each institution an opportunity to reduce default rates to the 10% limit required by federal regulations.

In the beginning, two programs were established and an institution could opt to either "refer" or "assign" to ED those accounts that had been in default at least two years. If the institution referred the accounts, they remained institutional property and the federal government acted as a collection agency. As a result, only those accounts referred to and accepted by the U.S. Government on or before September 15, 1979, served to reduce the default rate. The referral program was terminated July 1, 1981. A portion of the money collected (originally 80%) was to be returned to the institution for relending, but the referral policy had a disadvantage that caused many institutions to choose assignment instead: U.S. attorneys could not sue because the account belonged to the institution. Thus, if litigation became necessary, the account was returned to the institution with instructions to sue.

If an institution chose to assign the account, it was assigned without recompense, and all rights, authorities, and privileges associated with that note were transferred to the government. If the government succeeded in collecting on the debt, all money collected became property of the federal government and was not returned to NDSL funds. However, *all* accepted assignments reduce the institution's default rate.

There have been several changes in the assignment process. Currently, the assignment period is July 1–November 30, and the location is Department of Education, NDSL Assignment Process, Post Office Box 1761, Norfolk, VA 23501.

Institutions may assign loans in default for two years or more. A loan is considered in default, for the purpose of assignment, on the date a loan installment is overdue. If a borrower has made sporadic payments during this time, the loan still may be assigned as long as the borrower has not brought his or her account current (all overdue amounts repaid) during the two years.

Required submission documentation is based on institutional default rate.

For institutions with a program default of 10%

or less on June 30 (as calculated from information provided in the fiscal operations report), the following documentation is required:

1. A submissions package manifest showing for each loan in the package: borrower's name and social security number, whether the loan is a Direct or Defense Loan, and the total dollar amount of the loan (item 67 on Form 553, "National Direct (Defense) Student Loan Program Assignment Form").
2. A fully completed Department of Education form 553 (Exhibit NDSL-53) bearing an original signature of an authorized institutional officer.
3. One photocopy of the completed ED form 553.
4. Original promissory note, or a photocopy that has been certified to be a true copy.
5. Complete repayment history, showing dates payments were received and distribution of each payment between principal and interest.
6. Copy of acceleration notice if account was accelerated.
7. Legal transfer of the judgment to ED, if one has been perfected.

If the institution's default rate is higher than 10%, the institution must submit the above items plus documented proof that it has met all applicable due diligence requirements in effect when the loan entered default. Due diligence standards first were published December 24, 1976, with changes made August 24, 1978; August 13, 1979; and January 19, 1981. For loans that went into default prior to December 1976, institutions must demonstrate reasonable collection efforts along the lines of the due diligence standards to satisfy this requirement.

All loans must be recalled from outside servicers and/or collection agencies at least 60 days prior to the certification date on ED Form 553. If payment is made to the outside firm by the borrower, after the account has been assigned, the full payment has to be forwarded to the National Payment Center by the institution. Collection agency fees also must be borne by the institution.

When assigning *both* National Defense and Direct Loans for the same borrower, separate documentation must be provided for each loan. In other words, the accounts are to be treated as two completely separate accounts with two separate ED Forms 553, separate due diligence documentations, and so forth.

If not all steps of due diligence have been performed, the institution is allowed to "cure" the oversight by beginning with skip-tracing (section 674.45 of the NDSL regulations) and continuing through litigation. Therefore, past errors need not prohibit forever the possibility of assigning an uncollectible account, unless the required signatures were not obtained on the promissory notes. When a "cure" process loan is submitted for assignment, institutions must clearly write "CURE PROCESS SUBMISSIONS" in large print at the top of ED Form 553. Cured accounts may be resubmitted during any normal submission period.

Occasionally, a borrower sends a payment to the lending institution after the account has been referred or assigned. Institutions that receive payments from defaulted borrowers are to immediately forward these payments to the National Payment Center, P.O. Box 779-NDSL, Norfolk, VA 23501. Each payment must clearly indicate the borrower's full name, social security number, and the type of loan (Defense or Direct) to which the payment is to be applied.

At this writing, there are three regional offices dealing with assignment collections: San Francisco, Chicago, and Atlanta. Institutions may be called by one of these for information, but all assignments go through the NDSL Assignment Processing Center.

The Department of Education Assignment Processing steps are as follows:

1. Institution submits accounts to NDSL Processing Center, Norfolk, Virginia.
2. Manual count of loans is made and compared to institution's Submission Package Manifest.
3. If in agreement, institution will be sent a letter acknowledging the number of loans received.
4. If not in agreement, institution will receive a letter acknowledging the correct number and a list of those in dispute.
5. Accounts are reviewed for assignment compliance. An acknowledgment letter is sent to the institution listing the names, social security number, and loan identification number of borrowers.
6. Rejected accounts are returned to institutions with stated reasons for rejection. The accounts then can be resubmitted when the reason for rejection is solved. These accounts must be marked *RESUBMISSIONS*.
7. When all assignment criteria are met, the

institution will receive an official acceptance notice, which must be retained for school records.

Loan Consolidation

The Education Amendments of 1980 gave the Student Loan Marketing Association (Sallie Mae) the authority to consolidate Guaranteed Student Loans and NDSLs for qualified borrowers. Such consolidation was designed to ease the repayment burden for borrowers and to lower loan default rates. The program expired in October 1983 and was not renewed.

Health Professions and Nursing Student Loans

The Health Professions Student Loan program (HPSL) and the Nursing Student Loan program (NSL) are federal programs authorized by the Public Health Service Act and administered by the U.S. Department of Health and Human Services (DHHS).[1] Specific authority for the HPSL program comes from Title VII, Sections 740-744 of the Act, as amended, and is governed by Regulation 42 CFR 57, Subpart C (Sec. 57.201–218). Authority for the NSL program comes from Title VIII Sections 835-841 of the Act, as amended and is governed by Regulation 42 CFR 57, Subpart D (Sec. 57.301–57.320).

Purpose

HPSLs are granted to assist students in pursuing a course of study leading to a degree of doctor of medicine, doctor of dental surgery or equivalent degree, doctor of osteopathy, doctor of optometry or equivalent degree, bachelor of science in pharmacy or equivalent degree, doctor of podiatry or equivalent degree, or doctor of veterinary medicine or equivalent degree.

NSLs are granted to assist students in pursuing a course of study leading to an associate degree in nursing (registered nurse only), a diploma in nursing, baccalaureate degree or equivalent degree in nursing, or a graduate degree in nursing.

The goal of these programs is to increase the nation's human resources by providing financial assistance through long-term, low-interest loans to needy students who have been accepted for enrollment by an institution or who are already enrolled in one of the courses of study listed above.

The HPSL program was created in 1963, followed by the NSL program in 1964; both have been amended several times, as indicated in Exhibits HPSL/NSL-55 and HPSL/NSL-56.

Loan Maximums

The maximum amount of an HPSL that can be awarded to a student for an academic year or its equivalent is $2,500, plus cost of tuition. There is no aggregate limit for all years.

The maximum NSL available to an individual borrower in an academic year or its equivalent may not exceed $2,500, or the amount of student's financial need, whichever is less. The aggregate of loans for all years from the Federal Capital Contribution Fund may not exceed $10,000 for any nursing student.

For students enrolled in schools that have a required course of study longer than the traditional nine-month, September-to-June academic year, the loan's maximum amount may be increased proportionately. For example, if a student pursues the course of study for a full twelve months, he or she may borrow a maximum of 12/9 of $2,500 or $3,333 for twelve months.

A student who applies for a loan after the first quarter, semester, or term may receive the full amount requested, provided the total amount for that school year does not exceed the yearly maximum of $2,500 (plus cost of tuition for health professions students) or the amount the student actually needs for continuing his or her studies for the school year, whichever is less.

Interest Rates

Prior to July 1, 1969, borrowers who received loans during different periods paid the interest rate of the borrower's *first* loan. Since July 1, 1969, loans that are made at different interest rates must be computed at their respective interest rates. An example is a student who became a borrower in September 1967. The first loan was made when the statutory interest rate was

[1] The full address includes: Health Resources and Services Administration, Bureau of Health Professions, Division of Student Assistance, 5600 Fishers Lane, Rockville, MD 20857.

4¼%; the second loan, when the rate was 5⅛%; and the third, when the rate was 3%. The interest rate on the first two loans was computed at 4¼% and interest on the third loan was computed at 3%.

HPSLs have the following interest rates, based on the date they were incurred:

- From July 1, 1964, through June 30, 1966 (FY 1965 & 66) 4¼%
- From July 1, 1966 through June 30, 1967 (FY 1967) 4⅛%
- From July 1, 1967 through June 30, 1968 (FY 1968) 4¼%
- From July 1, 1968 through June 30, 1969 (FY 1969) 5⅛%
- From July 1, 1969 through September 30, 1977 3 %
- From October 1, 1977 through August 12, 1981 7 %
- Beginning August 13, 1981 9 %

Nursing Student loans have the following interest rates based on the date they were incurred:

- From July 1, 1964 through June 30, 1966 (FY 1965 and FY 1966) 4¼%
- From July 1, 1966 through June 30, 1967 (FY 1967) 4⅛%
- From July 1, 1967 through June 30, 1968 (FY 1968) 4¼%
- From July 1, 1968 through June 30, 1969 (FY 1969) 5⅛%
- From July 1, 1969 through August 12, 1981 3 %
- Beginning August 13, 1981 6 %

Interest is computed on the unpaid principal balance and begins to accrue on expiration of the grace period, unless a borrower is eligible for deferment status.

Eligibility

A student applicant must be a citizen or national of the United States, or a permanent resident of the United States, Puerto Rico, the Virgin Islands, Guam, American Samoa, the Trust Territory of the Pacific Islands, or the Northern Mariana Islands. A student who remains in this country on a student or visitor's visa is not eligible.

The borrower must be enrolled, or accepted for enrollment, as a full-time student (or at least half-time for nursing students) in an institution that participates in the loan program. The student must be in good standing and capable, according to the institution, of maintaining such standing in the course of study. To receive a loan, the student must need the requested assistance in order to pursue his or her full- or half-time course of study.

Medical and osteopathic students who are graduated after June 30, 1979, are eligible for HPSLs only if they have "exceptional financial need." A student will be considered to demonstrate exceptional financial need if the institution determines that his or her resources do not exceed the lesser of $5,000 or one-half the cost of attendance at the institution. Summer earnings, educational loans, veterans' benefits, and earnings during the school year are not considered resources in determining whether an applicant meets eligibility criteria for exceptional financial need.

Making a Loan

Each institution should use a system for making loans that best fits its particular philosophy and budget. Many health professions and nursing schools have their own financial aid office, while a separate office (usually the institution's business office) does the collection work. Some use a central financial aid office whose responsibility it is to both grant and collect loans. The preferable method, from a sound business and internal control standpoint, is for one office to determine need and grant loans and another office to perform collection work.

Using this method of operation, the following would be a typical procedure for granting a loan:

1. Student completes an application and returns it to financial aid office.
2. Financial aid office determines student's need and prepares loan note.
3. Loan note is mailed to student for signature of acceptance of loan terms.
4. Student returns signed note to financial aid office.
5. Financial aid officer signs note as authority for business office to disburse funds.
6. Business office prepares a check for amount of disbursement. Although not required by law, there is a definite advantage in collecting loans if the student has received a loan check rather than having the money credited (a grant or scholarship) to his or her account. It is also advantageous to make the check payable both to the student and the institution to insure that the student is enrolled for sufficient credits to qualify for the loan. If a student fails to qualify, the institution may refuse to cash the check and the loan may be voided.

Preloan Counseling

Sound collection procedures presuppose reasonable discretion in lending. Each institution must be certain that students understand that

they are receiving a loan, which must be repaid. No loan should be granted until the student fully understands its agreed-on terms and the responsibility to meet those terms.

Each institution should inform borrowers of their rights, responsibilities, and obligations when a promissory note is signed (Exhibit HPSL/NSL-57). In addition, it is recommended that each borrower complete a form during preloan counseling that provides sufficient information to locate borrowers if they become "skips" (Exhibit GEN-1).

Promissory Notes

Each student loan requires a note that sets forth legal conditions under which the loan is made. This note is the legal document that binds the borrower to the repayment obligation, terms of the Public Health Service Act, and federal regulations and policies that govern the loan program. Therefore, the note must be properly completed and adequately safeguarded. The particular method of insuring such protection is the institution's responsibility, but notes must be adequately safeguarded against fire, theft, and tampering.

The student promissory note form must contain all pertinent requirements set forth in the governing regulations. A common form that may be used is shown in Exhibit HPSL/NSL-59 and such forms may be obtained from the Department of Health and Human Services (DHHS). If the institution uses its own note forms, it must replace the DHHS name and address at the top of the note with the name and address of the institution and should consider the following additions or changes:

1. Providing a place for the borrower to enter his or her permanent home address, as some means of identification is needed when there are two or more students with the same name.
2. Providing a place for the financial aid officer to sign his or her approval. This resolves auditors' concerns as to whether the loan was approved through proper channels.

HPSL regulations require that the HPSL promissory note include an acceleration clause, effective for promissory notes executed or advances made on or after June 3, 1983.

Institutions are reminded that, although they must include an acceleration clause in promissory notes, acceleration is to be used only at their discretion. The Bureau of Health Professions expects institutions to exercise their professional judgment in determining when it is advantageous to accelerate the payments of a borrower who is past due.

Disclosure

A statement of disclosure regarding financial charges must be made and signed by the borrower each time a loan award is made and when a repayment schedule is signed, in accordance with truth-in-lending provisions of the Consumer Credit Protection Act (Exhibit GEN-3). Specifically, the following information is required:

1. Annual percentage rate prior to repayment
2. Annual percentage rate during repayment
3. Identity of creditor (institution)
4. Amount financed
5. Itemization of amount financed
6. Prepayment
7. Late payment

If the institution uses a "closed" note, this disclosure need be made only when a new note form is provided. If an "open-ended" note is used, a disclosure is required for each advance.

For the exit interview, a form similar to Exhibit GEN-4 can be used or truth-in-lending information can be included in the repayment schedule (Exhibit HPSL/NSL-58). If the latter is done, it must be separated from all other information either in a separate block or by using bold type. Information required for truth in lending on the repayment schedule is as follows:

1. Annual percentage rate during repayment
2. Identity of the creditor (institution)
3. Finance charge
4. Amount financed
5. Total dollar amount of all payments
6. Payment schedule
7. Late payment amount (penalty)
8. Prepayment (no penalty)
9. Itemization of amount financed

A copy of the disclosure must be given to the borrower each time.

In-School Period

Records Check

Once the borrower has obtained a loan, a check should be made of enrollment records on at least a semiannual basis. If the borrower is no longer enrolled, the date of separation must be determined and the account placed in a repayment status.

Information Update

Many borrowers continue to receive loans as long as they remain in school. Each time they apply for a new loan, new or updated information should be obtained by having the borrower complete a new personal and confidential information form (Exhibit GEN-1). This information can aid in skip-tracing a lost borrower.

Exit Interview

Prior to the borrower's leaving an institution, an exit interview should be held to insure that he or she is aware of the obligation incurred, as well as of benefits that are available under the program. All the borrower's questions should be answered and a thorough understanding must be reached regarding his or her responsibilities during the repayment period.

Who Should Give the Interview?

It is recommended that the exit interview be conducted by the institutional staff member who has responsibility for collection. This person must have full knowledge of program requirements and benefits to insure that the borrower leaves school with no doubt about what is expected.

What Should Be Covered?

The following should be covered in an exit interview:

1. Make sure the borrower fully understands the loan terms and conditions. A copy of the repayment, deferment, and cancellation brochure, which covers all phases of repayment, should be provided.[2] The brochures provide a convenient reference on borrowers' rights and obligations and other essential information needed for repayment of their loans.[3]

2. Arrange a repayment schedule and agree on the date of the first payment. The borrower must be allowed to choose between at least one equal and one graduated periodic plan unless the institution has included the $15-per-month minimum repayment option and the loan would fall into that category. The institution also has the option of choosing frequency of payments. For NSLs, repayment frequency cannot be less than annual. For HPSLs, frequency cannot be less than quarterly.

3. Obtain clear agreement on amount borrowed, interest rate, and amount due for each installment. Notes should be available for inspection by the borrower in order to avoid questions. If the institution chooses, the minimum payment can be $15 per month ($180 per year), but if this imposes a hardship on the borrower, payments may be less with the mutual consent of institution and borrower. The maximum period of repayment is ten years, and minimum payments cannot extend repayment beyond this period.

4. Have the borrower sign the repayment agreement and truth-in-lending form, give the borrower a copy of each, and place a copy in his or her file.

5. Review skip-tracing information or at least make sure that someone other than the borrower is listed with an address and telephone number.

6. Direct the borrower's attention to advantages of prepayments during the grace period. (These are not, and may not be, required.)

7. Make the borrower aware of the importance of paying promptly or contacting the institution prior to due date if for any reason payment cannot be made. Remind the borrower that the institution may impose a late charge for failure to pay all or any part of an installment when it is due, or for failure to file timely evidence of deferment or cancellation of part or all of a loan. The late charge may be up to one dollar for the first month or part of a month following due date and two dollars for each subsequent month or part of a month.

Every effort must be made to hold an "in-person" exit interview, with documents provided, and should be for dropouts as well as graduates. If the interview cannot be conducted in person, it should be done by mail. In either case, a signed repayment agreement should be obtained, if at all possible; this should be attached to and become part of the note.

Billing Process

Due Diligence

Regulations for HPSLs and NSLs provide that "each school at which a fund is established shall exercise due diligence in the collection of all loans due the fund."

Due diligence is the process by which sound collection procedures are exercised. Such procedures usually result in a low rate of student loan

[2] These brochures can be obtained from DHHS, HRSA, Bureau of Health Professions, Division of Student Assistance, 5600 Fishers Lane, Rockville, MD 20857.

[3] Nursing brochure form DHHS (HSA) 82-6100; health professions form (HSA) 82-6101.

delinquency. In order to fulfill the program requirement to exercise due diligence, each participating institution should:

1. Provide the borrower, when the promissory note is signed, with an "entrance interview," when the borrower's rights, responsibilities, and obligations under the loan are explained.
2. Conduct an exit interview with all borrowers prior to their leaving the institution. The exit interview may be conducted either on an individual basis or in groups.
3. Mail to borrowers who leave the institution without notice a copy of their note and two copies of their repayment schedule. Request that they sign and return one copy of the repayment schedule.
4. Maintain contact with borrowers after they leave the institution in order to facilitate billing and to keep them informed of all changes in the program affecting their rights and obligations.
5. Correspond with the borrower two or three times before the first payment is due, as follows:

- 90 days into the grace period;
- 180 days into the grace period; and
- no less than 30 days preceding the due date of the first installment.

6. Perform regular billing and follow-up procedures during the period in which any outstanding balance remains unpaid.
7. Continue trying to locate a borrower whom the institution has lost in spite of its established billing and follow-up efforts.
8. Take action on delinquent accounts:

- 15 days after payment is due
- 45 days after payment is due
- 60 days after payment is due
- 75 days after payment is due
- 120 days after payment is due
- By turning account over to collection agency
- By reporting account to credit bureau
- By using litigation when appropriate

The importance of following due diligence cannot be overemphasized. Failure to do so will eliminate the possibility of receiving approval to write off uncollectible loans.

Grace Period Notices

The grace period is a time immediately following completion of studies as a full-time student (or, for nursing students, a half-time student for those who received loans after November 17, 1971) during which repayment of principal is not required and interest does not accrue. This grace period must be granted to all students on termination or completion of studies.

For HPSLs, the grace period is one year on loans made after June 30, 1969, and three years on loans prior to July 1, 1969.

For NSLs, the grace period is nine consecutive months on loans made after June 30, 1969, or twelve consecutive months on loans made prior to July 1, 1969.

If, during the grace period, the borrower resumes full-time or half-time studies at the same or another health professions or nursing school, the interrupted grace period is treated as if it did not begin at all. The borrower is required to file a Certification of Deferment Status (HRSA-519, Exhibit HPSL/NSL-60) with the lending institution and later is given a full grace period when no longer pursuing an eligible course of study as either a full-time or half-time student.

The grace period always begins on the first day of the month nearest to the date the borrower is no longer a full-time or half-time student. For purposes of calculating the beginning of a grace period, a person receiving a degree on June 15 is considered to have begun his or her grace period as of June 1.

A borrower who has been granted the maximum grace period on one loan and who later resumes a full-time course of study at the same or another institution and receives an additional loan is not entitled to an additional grace period for the original loan.

The grace period always ends on the last day of a month. On the first day of the next month, the borrower enters into either repayment status or, if approval has been granted, deferment. One or the other of these conditions always exists, without exception. The grace period cannot be extended under any circumstances.

During the grace period, the institution should make contact with borrowers to remind them of their obligations and the pending repayment period. It is advisable to contact the borrower two or three times during this period.

The first contact should be made 90 days into the grace period. The borrower should be reminded of his or her rights and obligations, including:

1. That the loan must be repaid in a timely manner, as required in the signed repayment schedule;
2. That the borrower must inform the institution of any changes of name and address;

3. Full amount of the loan, including interest rate;
4. Date and amount of first payment;
5. Responsibility to contact the institution prior to due date of any installment if payments cannot be made for any reason;
6. Rights to deferment, postponement, and/or cancellation, as well as the need for timely submission of such forms;
7. Right to accelerate loan repayments without penalty; and
8. Any other items, such as institution's right to withhold all services (such as transcripts, letters of recommendation, alumni materials, and placement information) until notified by its collection office that the borrower's obligations have been met.

A second contact may be made 180 days from the beginning of the grace period to remind borrowers of the date the grace period expires.

The final grace period contact should be 30 days prior to the due date of the first payment. The due date and the amount of principal and interest due should be stated. This contact could be in the form of, or take the place of, the first statement.

First Statement

Prompt, consistent billing, on a statement form that provides sufficient information for the borrower to fully understand the status of his or her account, is probably the single most important factor in keeping accounts current. Therefore, an advance notice should be mailed to the borrower 15 or 30 days prior to each payment coming due. The statement should be so designed that the borrower may retain the information portion and return a stub showing his or her name and account number. The following information should be included:

1. Name and address
2. Account number
3. Total amount borrowed
4. Total principal paid
5. Total interest paid
6. Total principal cancelled
7. Outstanding balance
8. Current principal due
9. Current interest due
10. Past due principal (if any)
11. Past due interest (if any)
12. Total amount due for month
13. Total amount due if payment in full
14. Finance charge stated in percentage amount
15. Date payment due
16. Date of last activity
17. To whom checks should be made payable
18. Address where payment should be sent

Use of a window return envelope helps to insure that a borrower will return the institution's portion of the statement, which is important in crediting payment to the right account.

Delinquent Account Follow-up

If payment is not made or appropriate forms are not submitted by the borrower when payments are due, the institution must initiate follow-up activities to elicit payment and prevent the account from becoming further delinquent. Each contact should become progressively more firm in tone. If such efforts are unsuccessful, they must be repeated with respect to any proper endorser of the loan.

Continued mailing of a series of statements or letters to the same address when it is clear that the borrower (or endorser) no longer resides there is not due diligence. An institution must attempt to find a correct address through the use of any information obtained from the borrower or through sources such as the registrar's office or the alumni office. In addition, most state licensing bureaus will aid in locating lost borrowers. (Exhibit HPSL/NSL-61 lists appropriate telephone numbers by state.) If a borrower cannot be located from information available at the institution, a commercial skip-tracing firm should be used.

Fifteen days delinquent. Within 15 days after due date, a notice of payment due should be sent to the borrower. At this time the borrower should be reminded that institutional services (transcripts, letters of recommendation, alumni materials, publications, placement information, etc.) will be withheld until the account has been brought current or until satisfactory arrangements have been agreed on. However, serious consideration should be given to releasing transcripts directly to a prospective employer, since a borrower may be hard pressed to bring the account current without a job.

Forty-five days delinquent. Within 45 days after due date the institution should contact the borrower in writing or by telephone. In this contact the institution should verify the correct mailing address and demand payment of all prin-

cipal and interest due to that date and any accrued penalty charges.

Sixty days delinquent. If no response is made to the institution, a third effort should be in writing (registered mail, return receipt requested), by Mailgram, or by telephone within 15 days of the second contact (or within 60 days after payment is due). In this contact the borrower should be advised that the lending institution has the option of demanding payment of all outstanding principal and accrued interest if the promissory note includes an acceleration clause. The HPSL borrower should also be told that HPSL regulations require institutions to change repayment frequency to monthly on any borrower who becomes 60 days past due in repayment regardless of when they entered repayment status. Monthly repayment schedules must be calculated and sent to each of these borrowers with a letter explaining that because of his or her failure to abide by terms of the former repayment schedule, the institution has made the schedule monthly. Payments that were past due under the borrower's former schedule must continue to be past due under the new monthly schedule unless the borrower is eligible for a renegotiated schedule because of his or her financial situation. Once the new repayment schedule has been sent to a borrower, the institution must henceforth determine the borrower's status (current or delinquent) according to his or her compliance with the monthly repayment schedule.

Seventy-five days delinquent. If a satisfactory response is not received to the third contact, a final demand letter should be sent within 75 days of the payment-due date. The letter should state that if the borrower does not respond in 30 days, he or she risks the loan's being referred to a collection firm or for legal action. Concern about such possibilities often prompts a borrower to respond. He or she must be given sufficient time to respond to this final demand. However, once the borrower has been informed of an action to be taken, there should be no hesitation in carrying it out. Failure to act on demands does not help the borrower, the institution, or the loan program.

One hundred twenty days delinquent. By 120 days past due date, the account should have been referred to a collection firm. In addition, the June 3, 1983 regulations for HPSL require an institution to become a member of a credit bureau and notify the credit bureau of accounts overdue by more than 120 days, when appropriate. This reporting is also part of due diligence.

Collection Firms

Nursing loan regulations do not *require* that an account 105 to 120 days past due be referred to a collection firm, but institutions are urged to use these firms for such overdue accounts. HPSL regulations *do* require that such overdue loans be referred to a collection agent, which can include an internal (institutional) agent.

If an institution chooses to use an outside firm, it should select one that is established and reputable. Fees charged by a collection firm, if charged to the fund, may not exceed normal and reasonable collection fees for the area in which the institution is located. A collection cost of 40-50% is acceptable if legal proceedings are involved and if this is normal and reasonable for the area. (See the section on the collection process in Chapter One, pp. 17–22, for a presentation of the issues involved in using collection agencies.)

Litigation

As with collection firms, litigation is a measure urged for use in management of nursing loans; it became mandatory for HPSLs as of June 3, 1983. The actual wording of the 1983 regulation is "Institute legal proceedings against borrowers after all other attempts at collection have failed, provided that such litigation is appropriate."

For institutions using outside collection firms, legal proceedings can be handled through most agencies. However, no firm should be allowed to proceed with litigation without the institution's written consent.

Legal fees must be reasonable and total cost of litigation must not exceed the principal balance due. All legal fees must be itemized, showing hours worked and dates of actual court appearances.

Uncollectible Loans

Under the Federal Capital Contribution program (FCC), uncollectible loans may be written off on review and determination by the federal government that the institution exercised due diligence in collection. As soon as it is established that a loan is uncollectible, the institution may submit documentation to support a request for write-off of the loan to DHHS.

Approval for write-off of loans is considered on a case-by-case basis. The institution must supply DHHS with documented evidence that it has exercised due diligence in loan collection, such as:

- Evidence of entrance and exit interviews
- Copies of correspondence during grace and deferment periods
- Bills and follow-up correspondence
- Documents indicating use of collection agents
- Notification to credit bureaus
- Copies of legal documents as evidence of litigation, where appropriate

Copies of any additional evidence of efforts at loan collection should also be included with the request for write-off. A summary sheet for each loan, indicating date(s) of the loan(s), date of beginning of repayment, and dates of specific due diligence and other institutional actions, expedites the review by DHHS. The Department may request further information from the institution in order to determine approval or disapproval of the write-off. When reviewing the request for write-off, DHHS takes into consideration the due diligence procedures in effect when a loan entered repayment and any subsequent actions taken by the institution in attempting to collect the loan.

NOTE: The following two items are important:

1. Most institutions do not keep copies of grace period notices and routine billing notices. In these cases, the summary sheet which documents the dates that notices and billings were sent out must be *certified* and notarized for each loan, showing all steps taken in attempting to collect the loan.

2. The Department has revised the due diligence section of the HPSL regulations to require that, in exercising due diligence, institutions must use collection agents, use litigation when appropriate, and notify credit bureaus of accounts overdue more than 120 days when appropriate. In order to receive write-off approval for an uncollectible loan submitted after June 3, 1983, a health professions institution must include evidence of the application of these three collection tools as part of due diligence documentation.

Because these three steps of the due diligence process can reasonably be applied to any loan, regardless of when the loan was awarded, an institution must use these new requirements in the collection of all HPSLs. For example, if a school has not used a collection agent in attempting to collect uncollectible loans, it can meet this requirement by simply referring those loans to a collection firm. Similarly, if an institution has not used a credit bureau, it can satisfy this requirement by reporting uncollectible loans to a credit bureau, or if not appropriate, documenting its reason for not using a credit bureau. An institution that has not used litigation can satisfy this requirement by litigating on uncollectible loans or stating why litigation was not pursued in cases where the institution has concluded that it would not be appropriate.

Institutions should note that use of these collection tools alone do not make a loan eligible for write-off approval. An institution must also document compliance with the long-standing regulatory due-diligence requirement to "use the collection practices which are generally accepted among institutions of higher education and which are at least as extensive and effective as those used in the collection of other student loan accounts due the school."

If the write-off is approved by DHHS, the institution will be notified to that effect and the uncollectible loan will be written off proportionately between the school and the federal government. If the Bureau of Health Professions disapproves a write-off request because of failure to exercise due diligence, the Office of Debt Management will inform the institution of the specific reason(s) for disapproval. A school may then request a reevaluation of the decision if it submits additional evidence of due diligence that was not included with the initial request.

The institution continues to be responsible for any of its loans that do not receive write-off approval and may subject these accounts to additional collection efforts as appropriate. In addition, the institution must determine the time at which it will reimburse the loan fund for those loans that can neither be collected from the borrower nor approved for write-off by the Bureau. Each institution should be aware, however, that as long as it elects to carry an uncollectible loan on its books (rather than reimburse the fund for the uncollectible amount), it must continue to report the loan as a delinquent account. In addition, interest will continue to accrue on the unpaid principal balance, as it does on any other loan in repayment status.

Delinquency Rate Performance Standards

HPSL regulations set a performance standard that requires each school (such as school of medicine or school of dentistry) to have achieved a delinquency rate no greater than 5% by June 30, 1984. Regulations also established a series of

performance checkpoints for schools unable to reach or maintain the 5% performance standard by June 30, 1984, or on any June 30 thereafter. If a school met the 5% performance standard on June 30, 1984, its participation in the HPSL program continues without respect to any fluctuations in its delinquency rate until the next annual operating report delinquency rate as of June 30, 1985.

HPSL regulations use the following formulas to determine whether a school is in compliance with the 5% performance standard:

1. Borrower Delinquency Formula

$$\frac{\text{Number of borrowers with accounts more than 60 days past due}}{\text{Number of borrowers with accounts in repayment status}}$$

2. Dollar Delinquency Formula

$$\frac{\text{Total principal outstanding on accounts more than 60 days past due}}{\text{Total principal loaned on accounts in repayment status}}$$

Institutions should note that the denominator, "accounts in repayment status," includes only accounts on which the borrower should be making regular payments (for example, retired loans and loans in grace period, deferment, bankruptcy proceedings, or forbearance are excluded).

An institution that meets the 5% performance standard on June 30, 1984, and meets it on each June 30 thereafter, is in compliance status. A school that does not meet the 5% performance standard is in probationary, suspended, or terminated status, as described below.

Probationary Status

A school that failed to meet the 5% performance standard by June 30, 1984, is allowed to continue participating in the program but is in probationary status. An institution in probationary status is required to meet the following performance checkpoints:

1. On December 31, 1984, the school must have reduced its delinquency rate to at least 50% of its June 30, 1984 rate, or meet the 5% performance standard.

2. On June 30, 1985, the school must have reduced its delinquency rate to 50% of the rate required for December 31, 1984, or meet the 5% performance standard.

3. At the end of each six-month period thereafter, the school must have reduced its delinquency rate to 50% of the rate it was required to achieve by the end of the previous six-month period or 5%, until it reaches the 5% performance standard.

A school remains in probationary status as long as it continues to meet the performance checkpoints described above, even if it fails to meet the 5% performance standard. When an institution in probationary status has reduced its delinquency rate to 5% or less, it enters compliance status.

Suspended Status

A school in probationary status that fails to meet any of the performance checkpoints described above enters suspended status. A school in suspended status must:

1. Place HPSL funds in an insured, interest-bearing account with earnings going into the HPSL fund;

2. Make no new loans or loan disbursements; and

3. Reduce its delinquency rate to 50% of the rate which it was required to achieve prior to entering suspended status, or meet the 5% performance standard, as of the end of the six-month period of suspended status.

Terminated Status

A school in suspended status that fails to achieve the performance checkpoint described in No. 3 above enters terminated status. An institution in terminated status is required to:

1. Return to the Secretary of Health and Human Services the federal government's proportionate share of the HPSL account, and

2. Continue to collect on outstanding loans, and return to the Secretary the federal government's share of future collections on a quarterly basis.

As soon as a school in terminated status has met the 5% performance standard, it may apply to re-enter the program. If otherwise eligible, the institution will be readmitted and allowed to resume making loans from future collections and any subsequent federal capital contributions.

Charges to Funds

Costs of billing and collection, as could be expected, must be borne by the institution. This includes all activities through the final demand letter.

The fund may be charged with other collection costs that are in excess of the usual expenses incurred in the collection of student loans, but only when such costs are specifically approved by the Bureau.

Costs that may be covered, if approved by the Bureau, include those for long-distance telephone calls used in locating borrowers and post-

age costs of certified or registered mail. Such costs are applicable only if the institution performs its own collections, rather than using an outside firm, as long as such costs do not exceed those that would have been permitted had the institution used a collection firm. Costs arising from collection efforts made against a borrower having loans from both the Federal Capital Contribution fund (FCC) and the Federal Capital Loan fund (FCL) must be prorated between the two funds. Other costs are only such extra identifiable costs as may arise with collection efforts exerted beyond the usual routine efforts and expenses that the institution is expected to incur in carrying out due diligence and other sound collection procedures.

Costs of litigation arising in connection with collecting any obligation to the FCC may be paid out of the fund. Litigation costs include legal fees arising from collecting these accounts.

Costs not covered would be those of employing individual contractors or agents to handle billing and collection duties that are expected to be performed by the lending institution's own personnel in its exercise of due diligence and in its prudent and efficient management of the fund.

Interruption of Billing Process

An interruption in the normal billing process may take place for several reasons. When such an interruption occurs, certain steps are necessary to document the fact that the borrower's account is not delinquent, even though payments have stopped. For HPSLs and NSLs, reasons for interruption fall into four categories: deferment, forbearance, cancellation, and postponement.

Deferment

When the grace period ends, the ten-year repayment period begins, during which the borrower must repay principal and accrued interest according to his or her repayment schedule.

If, during the repayment period, a borrower engages in any of the activities identified below, the repayment period may be deferred until such time as the borrower ceases to engage in a deferrable activity or has exhausted the maximum allowable time established for each such activity.

Deferment extends the original ten-year repayment period by the length of the actual deferment.

Deferment periods need not be consecutive. A borrower may make one or several repayments, engage in a deferrable activity that delays further payments, resume repayments, and then return to deferment status at a later time.

The institution is responsible for granting deferment when it has determined that the borrower is in an eligible deferment status. This responsibility remains with the institution and cannot be delegated to an outside agent, such as a billing agency.

In order to determine a borrower's eligibility for deferment, the institution must have a properly completed Certification of Deferment Status (HRSA-519, Exhibit HPSL/NSL-60) from the borrower. The form must be filed at each of the following intervals:

- When first payment installment is due;
- Annually thereafter as long as borrower is eligible for deferment; and
- When borrower ceases to be in eligible deferment status.

The first block on the form is for the name and address of the institution that gave the loan; adjacent to it is a block for the name and address of the borrower.

Part I.A. of the form is for borrowers who return to student status during the grace period. All such borrowers must complete Part I.A., which requests information on the institution that the borrower is attending, dates of attendance, and degree program.

Part I.B. must be completed if the borrower is serving in a uniformed service or in the Peace Corps.

Part I.C. must be completed if the borrower is engaged in advanced professional training or has returned to student status.

The reverse side of the form contains sections that are to be completed by an appropriate official, who can verify that the borrower is engaged in the activity which he or she claims.

Part II.A. must be completed by an officer of the institution in which the borrower has returned to student status or is pursuing advanced professional training.

Part II.B. must be completed by the commanding officer or Peace Corps officer when the borrower is in a uniformed service or is a Peace Corps volunteer, respectively.

In the final two blocks of Part II, the lending institution documents action taken on the deferment request and makes it part of the borrower's file. There must be a deferment form in the borrower's file for each year that deferment status is claimed.

As a result of information provided by various institutions on the impact of timing of documentation for deferment status, the Bureau has modified the reporting requirement for deferments to allow for the problems institutions are encountering. If the institution has documented evidence of borrowers who are in deferment status as of the date of a required annual operating report or quarterly debt management report, but whose formal "Certification of Deferment Status" has not been received by the institution, the latter may include these borrowers in deferred status rather than in delinquent status. Documented evidence may include a written notification from the borrower or a documented telephone conversation with the borrower. Such documentation does not replace a properly executed "Certification of Deferment Status," which must be obtained from the borrower within a reasonable period.

The Department has determined that a "reasonable period" should not exceed 60 days beyond the date a payment is due. Not having official deferment documents on file after 60 days forces a borrower's account into delinquent status.

1. Student Status

When a borrower ceases to pursue an eligible course of study, but later re-enters the same or another nursing or health professions school *within the grace period*, repayment of principal and interest is not required. In addition, the borrower is still eligible for the full grace period on completion of the new period of student status.

A deferment form (provided by the institution) must be completed by the borrower, indicating the period of student status. The form must be certified by the registrar's office and returned to the lending institution (Exhibit HPSL/NSL-60).

Borrowers who re-enter the same or another nursing or health professions school after the grace period has expired must meet their scheduled repayments, unless qualified for deferment because of pursuing advanced professional training.

2. Advanced Professional Training

a. Nursing

For purposes of deferment after expiration of the grace period, advanced professional training encompasses only full-time training in nursing of at least one academic year, which is provided by an accredited institution or an affiliate, and is intended to advance the borrower's knowledge and strengthen his or her skill in nursing.

Examples of advanced professional training are as follows:

- Certificate or Master's Degree Program in Nurse Practitioner Training
- Clinical Specialty Programs
- Certificate or Master's Degree Program in Psychiatric Nursing
- Certificate or Master's Degree Program in Public Health Nursing or in Community Health Nursing

Pursuit of advanced professional training as a nurse anesthetist qualifies the borrower for deferment, but not cancellation, under the Nurse Training Act of 1975, effective July 29, 1975.

Time spent pursuing advanced professional training is not subtracted from the maximum ten-year repayment period.

A borrower who returns to a regular course of nursing study after the grace period qualifies for deferment only when the training is at a baccalaureate or graduate level. Therefore, the following chart may help in determining whether or not a borrower qualifies:

From	To	Eligible For Deferment?
Diploma	Diploma	No
Diploma	Associate Degree	No
Diploma	Baccalaureate	Yes
Associate Degree	Associate Degree	No
Associate Degree	Diploma	No
Associate Degree	Baccalaureate	Yes
Baccalaureate	Diploma	No
Baccalaureate	Associate Degree	No
Baccalaureate	Baccalaureate	Yes
Baccalaureate	Graduate Degree	Yes
Graduate Degree	Graduate Degree	Yes

A borrower who withdraws or graduates from a nursing program and enrolls in a program of study in another health discipline is not eligible for deferment. The borrower must begin making payments according to the repayment schedule agreed to at the exit interview, unless he or she is eligible for forbearance.

b. Health Professions

Students who enter advanced professional training qualify for deferment if the training is intended to advance the borrower's knowledge and skills in the health professions discipline *for which the loan was received* and if the training is one of the following:

(1) Internship or residency programs
(2) Full-time training beyond first professional degree

3. Uniformed Service

Students who perform up to three years active duty as a member of a uniformed service (Army, Navy, Marine Corps, Air Force, Coast Guard, the National Oceanic and Atmospheric Administration Corps, and the U.S. Public Health Service), are eligible for deferment. (Borrowers who work for a uniformed service in a civilian capacity are not eligible for deferment.) Such service performed during the grace period does not extend the length of the grace period.

4. Peace Corps

Students who perform up to three years as a volunteer under the Peace Corps Act are eligible for deferment. Such service performed during the grace period does not extend the length of the grace period. Service in VISTA does not qualify a borrower for deferment.

Total period of deferment for uniformed service and service as a Peace Corps volunteer may not exceed six (6) years combined. Each is limited to three years.

Summary

Loans Made:		On or before June 30, 1969	On or between July 1, 1969-Nov. 17, 1971	On or after November 18, 1971
Grace Period:	HPSL	3 years	1 year	1 year
	Nursing	3 years	9 months	9 months
Deferment:				
1. Advanced Professional Training				
	HPSL	up to 3 years	up to 5 years	no limit
	Nursing	up to 3 years	up to 5 years	up to 5 yrs.
2. Military Service				
	HPSL	up to 3 years	up to 3 years	up to 3 yrs.
	Nursing	up to 3 years	up to 3 years	up to 3 yrs.
3. Peace Corps				
	HPSL	up to 3 years	up to 3 years	up to 3 yrs.
	Nursing	up to 3 years	up to 3 years	up to 3 yrs.

All the above deferments extend the original ten-year repayment period by the length of the deferment.

5. Forbearance (Extraordinary Circumstances)

Due to extraordinary circumstances of the borrower, and at the institution's discretion, the borrower may be granted forbearance, which allows for a temporary delay in repayment of principal. Extraordinary circumstances that would place an undue hardship on the borrower to make the scheduled payments are as follows:

a. Nursing

(1) Students who graduate from a nursing program and, after the grace period, enroll in another nursing program that is not eligible for deferment for advanced professional training.

Example: A diploma nursing graduate enrolls in an associate nursing program after the grace period has expired.

(2) Students who change from nursing to a health professions discipline.

Example: A nursing student transfers to a medical school.

(3) Students who change their nursing discipline to a nonhealth discipline.

(4) Borrowers who suffer a drastic change in their financial situation due to events such as prolonged illness, unemployment, or a natural disaster.

b. Health Professions

(1) Students who change their health professions program by graduating from one program and going into a second program after the grace period has expired.

Example: A pharmacy graduate enrolls in a school of osteopathic medicine, after the grace period has expired.

(2) Students who change their health professions program by transferring from one discipline to another after the grace period has expired.

Example: A medical student transfers to a dental school after the grace period has expired.

(3) Students who change their health professions discipline to a nonhealth discipline.

(4) Borrowers who suffer a drastic change in their financial situation due to events such as prolonged illness, unemployment, or a natural disaster.

The institution must request at least annually, and have on file, any combination of the following items to document its reasons for forbearance:

- Verification from the institution in which the student is now enrolled regarding his or her full-time enrolled status.
- Evidence of continuing financial need of the enrolled student.
- Copies of medical bills and correspondence from the attending physician pertaining to the financial burden of prolonged illness.
- Unemployment records and correspondence.
- Correspondence from reputable persons or agencies verifying the hardship or disaster.

The institution must notify the borrower in writing of the approval (or disapproval) of granting forbearance. The basis for the decision must be thoroughly documented in the borrower's file.

The period for which a borrower can be granted forbearance is limited by a legal requirement that the repayment period not exceed ten years. Since periods of forbearance count as part of the ten-year repayment period, the institution must continue to accrue interest on the outstanding balance of the loan, and must make every effort to keep forbearance periods to a minimum. Otherwise, the borrower may be faced with unmanageable payments as a result of the reduced period of time for making them.

Cancellation

1. Death

On the death of a borrower, the unpaid balance of the loan and accrued interest is cancelled. To grant cancellation, the institution must obtain a death certificate or other official proof of death, which is retained in the borrower's file for audit purposes.

2. Permanent and Total Disability

A borrower is entitled to cancellation of a loan in the event of permanent and total disability, which is defined as being unable to engage in gainful employment of any kind because of a medically determinable impairment expected to continue for a long, indefinite period or to result

in death. The review and final determination is made by the Secretary of Health and Human Services, based on the institution's recommendation and supported by required medical certification relating to the borrower's disability.

To claim cancellation for disability, a borrower should submit a formal request to the institution that awarded the loan, indicating:

a. Date entered and date graduated or date studies terminated;
b. Total amount of loans obtained;
c. Amount of unpaid balance;
d. Nature of disability and its date of onset;
e. Employment prior to disability; and
f. Medical examination and/or treatment.

The borrower must consent, in writing, to the release of any required information on the disability to the institution and to DHHS.

The institution should forward to each of the borrower's physicians a copy of his or her signed consent for release of information, request a medical report, and explain the general provisions of the program pertaining to cancellation of a loan because of the borrower's permanent and total disability (Exhibit HPSL/NSL-62). The medical report should be sufficiently detailed to provide for a comprehensive review of impairment and prognosis. Supporting documentation, including relevant hospital records, diagnostic tests, and outpatient treatment and therapy must be included. The institution must then forward its recommendation, accompanied by medical certification and documentation, to DHHS for review and final determination by the Secretary of Health and Human Services.

The institution is formally notified of the Secretary's decision and is responsible for notifying the borrower of that decision. The institution must retain the written notification of the Secretary's decision on file for audit and other review purposes; it must report the amount of the loan cancelled on its next annual operating report.

3. Service as a Registered Nurse

With the enactment of the Nurse Training Amendments of 1979 (P.L. 96-76), cancellation provisions as they apply to work as a registered nurse have been repealed for NSLs made on or after September 29, 1979.

A borrower who received an NSL between November 18, 1971 and September 29, 1979 is entitled to receive cancellation of up to 85% of any such loan when employed full-time as a registered nurse in a public or nonprofit private agency, institution, or organization. Cancellation is authorized at the rate of 15% of the amount of such a loan, plus interest, which was unpaid on the first day of such employment for each of the first, second, and third complete years of such employment and 20% of such unpaid amount, plus interest, for each complete fourth and fifth year of such employment.

Borrowers with NSLs made prior to November 18, 1971 may receive or continue to receive cancellation of such loans in accordance with provisions in effect prior to that date as stated below.

- A borrower employed full-time as a registered nurse in any public or nonprofit private agency, institution, or organization is entitled to cancellation of up to 50% of the total amount of his or her NSL(s), plus interest. Cancellation occurs at a rate of 10% of the total amount of such loan, plus interest, which was unpaid on the first day of such employment for each complete year of eligible employment.
- A borrower employed full-time as a registered nurse in a shortage hospital as listed in the *Handbook for Loan Cancellation Benefit List of Hospitals*, 1972 Survey, 1970 Survey, or October 1969 publication is entitled to cancellation of up to 100% of the total amount of his or her NSL(s), plus interest. Cancellation occurs at the rate of 15% of the total amount of such loan, plus interest, which was unpaid on the first day of such employment for each complete year of such eligible employment. The shortage hospital lists will no longer be updated since cancellation provisions changed on November 18, 1971. These lists must not be confused with the shortage area lists used for the loan repayment provisions for service in a shortage area.

To be eligible for cancellation, a borrower of a Nursing Student Loan must:

a. Be licensed as a registered nurse by the state in which he or she is employed or have completed steps necessary for such registration (see Exhibit HPSL/NSL-61 for telephone numbers of state licensing bureaus);

b. Be employed full-time as a registered nurse including teaching in any of the fields of nurse training, and service as a school nurse, administrator, supervisor, or consultant in any field of nursing, in a public or nonprofit private agency, institution, or organization; and
c. Be in such employment for a complete year, which is defined as 12 consecutive months.

The beginning date of the first year (12 consecutive months) for which the borrower is considered eligible for loan cancellation is the date he or she begins employment or takes the examination to be licensed as a registered nurse, whichever is later. On passing the examination, a borrower has formally met the licensure eligibility requirement. A borrower who fails the examination is ineligible for loan cancellation. If the borrower takes the examination again and passes it, the beginning date for calculation of cancellation benefits is the date the examination is retaken, or beginning date of employment, whichever is later.

Although a registered nurse position might normally be considered to consist of a work schedule of 40 hours a week, it may be more appropriate to consider "full-time employment" in terms of the number of hours determined to be full-time by the employing agency or institution. This could be determined by comparing the position with equivalent positions in the same organization, in which persons are considered to be working full-time. Thus, the term "full-time" reflects working arrangements as found in that organization for all equivalent nurse positions. For those persons holding teaching positions, or for other registered nurse positions with school systems, a "complete year" would be the complete academic year of the institution in which the nurse is employed. In no case should a position requiring less than 30 hours of duty during a regular work week be considered sufficient to qualify as "full-time."

A borrower serving as a registered nurse in a voluntary capacity—and who therefore is not employed for pay—can still be considered for partial cancellation of his or her loans. The Office of General Counsel, DHHS, has determined that "whether an individual is working for pay or as a volunteer is irrelevant." Institutions must exercise caution in determining eligibility for volunteer work because of the tendency of volunteers to work less than full-time in this capacity. The school must insure that requirements are met.

For nursing loans, the definition of "nonprofit private agency, institution, or organization" is a corporation or association, or is owned and operated by one or more corporations or associations, no part of the net earnings of which lawfully benefits any private shareholder or individual. This definition includes federal, state, and local government agencies.

A borrower employed in any position listed below does not qualify for cancellation benefits since none of them are considered to meet the "nonprofit agency" criterion:

- Group practice or private physician's office nurse;
- Industrial nurse or employee health nurse in any profit-making organization, whether in the United States or overseas;
- Private duty nurse; or
- Employment and payment by a profit-making nurse registry or similar agency even though the nursing service itself may be performed in one or more nonprofit settings.

Any position that does not specify professional nurse training as a requisite for that job also fails to qualify the borrower for cancellation benefits.

Even though professional nurse training and licensure is a requirement for employment as a nurse anesthetist, such employment does not qualify the borrower for loan cancellation benefits, since this position is considered to be in a different professional classification and under other than nursing service control.

Service as a registered nurse in a foreign country does not entitle the borrower to cancellation benefits. The only exceptions allowed are:

- Service as a civilian registered nurse at any U.S. Government installation (such as a military base or American embassy) located in a foreign country; or
- Service as a registered nurse while on active duty in the military at any U.S. Government installation located in a foreign country.

In order to claim entitlement to loan cancellation for full-time professional nurse employment, the borrower of an NSL must file a "Request for Partial Cancellation of Loan" (HRSA-520, Exhibit HPSL-NSL-63) with the school of nursing that made the loan. The request must be submitted for each complete year of full-time professional nurse employment in a public or nonprofit private agency, institution, or organization. It is

the responsibility of the borrower wanting cancellation to:

(1) Complete Part I,
(2) Obtain certification by the employing agency, Part II, and
(3) Forward the original and one copy to the lending institution for cancellation of loan at the appropriate rate in lieu of payment.

The lending institution completes Part III, indicating amount of cancellation (principal and interest), and returns a copy to the borrower as the receipt that cancellation has been approved.

When it is established that a borrower is eligible for cancellation for full-time employment, the institution determines the amount to be cancelled by establishing the base amount of the loan and interest that has accrued during the service period for which cancellation benefits are to be provided. It is the base amount to which the annual rate of cancellation is applied.

The base amount of a loan is the amount of principal actually owed by the borrower on the first day of employment as a full-time nurse eligible for cancellation, or the amount he or she would owe at that time had all repayments due under terms of the note been made, whichever is less. The first day of employment is the first day of the first complete year of employment that qualifies for cancellation.

The base amount remains [illegible] for the duration of the repayment period even if the borrower leaves nursing employment and at some later date resumes employment as a registered nurse.

The borrower who is entitled to cancellation of an NSL is also entitled to cancellation of all interest that has accrued on the unpaid balance of the loan during the 12 consecutive months of employment as a registered nurse.

The borrower must make an annual payment of the difference between the scheduled installment and the amount cancelled when amount cancelled for a year of employment as registered nurse is not sufficient to cover the required installment of principal, and failure to make payment would result in payments extending beyond the maximum ten-year repayment period.

4. Health Professions Practice in Shortage Area

Only HPSLs made prior to November 18, 1971 may be cancelled in accordance with provisions in effect prior to that date as described below. To be eligible for a loan cancellation for practice in a shortage or rural area, a borrower must:

a. Have received the HPSL prior to November 18, 1971;
b. Be licensed to practice medicine, osteopathy, dentistry, or optometry (see Exhibit HPSL/NSL-61 for telephone numbers of state licensing bureaus);
c. Practice his or her profession in a designated shortage area for 12 consecutive months; and
d. Have the appropriate state health authority certify that his or her practice is helping to meet the need for and shortage of such professional services.

Cancellation and repayment for service in a shortage area are two separate and distinct provisions of the HPSL program.

If a borrower practices in a shortage area that has been determined by the Secretary of Health and Human Services to be a rural area characterized by low family income, the borrower is entitled to cancellation of up to 100% of the amount of the loan that is still unpaid on the first day of practice, plus accrued interest. This amount will be cancelled at the rate of 15% for each year of practice in this area. The shortest time in which this could be accomplished is seven years.

If a borrower practices in a designated shortage area, he or she is entitled to cancellation of up to 50% of the amount of the loan that is still unpaid on the first day of practice plus the accrued interest. This amount will be cancelled at the rate of 10% for each year of practice in the shortage area. The shortest time in which this could be accomplished is five years.

Amounts cancelled for practice in a shortage area should be credited against installments due. Cancellation is to be based on the certified "Request for Partial Cancellation of Loan" form.

A borrower desiring to qualify for a cancellation benefit is responsible for initiating the claim for cancellation of payments. However, the institution is responsible for informing the borrower of cancellation requirements and for providing necessary forms.

The first form the borrower must prepare is a "Request for Assurance" (HRA-36-7, Exhibit HPSL/NSL-64). This form must be submitted to the appropriate state health authority responsible for designation of shortage areas. The form validates that the area chosen for practice is indeed

a designated shortage area, or a rural low-income area qualified for cancellation.

The validated assurance guarantees the borrower that after 12 continuous months of practice in the area, he or she will qualify for loan cancellation, even if the area ceased to be designated as a shortage area.

An assurance for an area should not be requested more than six months in advance of the date that the borrower plans to begin practicing there. Assurances expire eight months from date of issue unless practice is begun and the state health authority notified. The validated form is to be submitted to the institution as documentation for final determination of cancellation.

The second form to be prepared is a "Notice of Practice in a Shortage Area" (Exhibit HPSL/NSL-65). A borrower must submit this form to the state health authority and DHHS on the date on which he or she began providing professional services in the area. For purposes of cancellation, a borrower practicing in an area before it was designated a shortage area will be credited with practice in a shortage area only from the date of designation as a shortage area.

The state health authority should be notified immediately on the borrower's termination of practice in a shortage area so that assurance for that area may be granted to another applicant.

At the end of each year of practice, the borrower should prepare and submit to the state health authority and the institution a "Request for Partial Cancellation of Loan" (Exhibit HPSL/NSL-66), which requests a certification of eligibility for loan cancellation; the form is sent to the state health authority, which then forwards the certified request to the lending institution in order that partial cancellation may be granted.

Retroactive cancellation of HPSLs is not granted. If the borrower fails to apply for loan cancellation according to procedures described above, including timely submission of required forms, cancellation cannot be granted.

The institution must keep on file all forms submitted by the borrower and by the state health authority on behalf of the borrower. On receipt of the request for partial cancellation of the loan, with the state health authority's certification that a borrower has met all requirements for cancellation, the lending institution determines the amount of principal and interest to be cancelled. The school then credits the borrower's account for the amount of principal and interest cancelled and completes Part III of the form, returning one copy to the borrower and forwarding one copy to DHHS. One copy of the form must be retained by the institution to support accounting entries made at the time the cancellation is recorded. This process is repeated on completing each year of eligible practice for which the borrower requests cancellation.

When the amount cancelled is less than the required annual payment, the borrower must send the institution a check or money order in the amount of the difference.

When it has been established that a borrower is eligible for cancellation, the institution determines the amount to be cancelled by establishing the base amount of the loan. It is the base amount to which the 10% for practice in a shortage area, or the 15% for practice in a rural shortage area, is applied. A loan's base amount is the amount of principal actually owed on the first day of practice in a shortage area (that is, the first day the borrower is available to begin providing professional health service to the public), or the amount owed at that time had all repayments due under the terms of the note been made, whichever is less. The first day of practice in a shortage area is the first day of the first complete year (12 consecutive months) of practice on which cancellation for professional practice may be granted.

The base amount remains fixed for the duration of the repayment period, even though the borrower may discontinue practicing in the area and, at a later date, resume practicing again in the same or another shortage area.

The borrower is entitled to cancellation of the interest that actually accrued on the unpaid balance of the loan during the year of practice in the shortage area.

Postponement

1. Nursing

Payment on an NSL may be postponed only if the borrower is employed full-time as a registered nurse in an eligible institution and wishes to claim partial cancellation of his or her loan at the end of a complete year of such employment. The "Request for Postponement of Installment Payment" (HRA 36-17, Exhibit HPSL/NSL-67) must be filed when a payment becomes due before the end of a complete year of such employment. The postponement form must be filed at least annually. Should the borrower terminate full-time employment as a professional nurse prior to completion of a year, the installment payment(s) is immediately due and payable to the

lending institution. It is the responsibility of the borrower to initiate the form and:

a. Complete Part I,
b. Secure certification of the employing agency, and
c. Forward the original and one copy to the lending institution.

2. Health Professions

An HPSL form to be submitted to the institution is the "Request for Postponement of Installment Payment" (HRA-36-9, Exhibit HPSL/NSL-68). This form is necessary to defer payment until the cancellation request is approved. The first postponement request must be accompanied by a copy of the borrower's validated "Request for Assurance and Notice of Practice" to assure the institution that the borrower is entitled to such postponement.

Receipt of a borrower's request for postponement of installment payments authorizes the institution to postpone collection of the required installment until the end of the borrower's complete year of practice. If the borrower does not complete the year of practice, he or she is required to pay the amount due according to the repayment schedule agreed to by the borrower.

Loan Repayment by Government

Service in a Shortage Area

1. Nursing Loans

A notice was published in the *Federal Register*, effective November 22, 1982, as follows:

"This notice announces that the Department of Health and Human Services will no longer accept applications from nurses who wish to enter into an agreement to serve in a shortage area in return for which a portion of an individual's educational loans will be repaid as authorized by section 836(h) of the Public Health Service Act. This decision is based on the fact that federal funds are no longer available for the repayment of nursing educational loans. Nurses and nursing schools are, therefore, advised that repayment of loans in return for service in a shortage area is no longer a viable option." (The provision for repayment of nursing educational loans may be reactivated in the future, but only if federal funds become available for such.)

2. Health Professions

A notice was published in the *Federal Register*, effective July 30, 1979, as follows:

"This is to give notice that the Health Resources Administration will no longer accept applications for Agreements for Loan Repayment under section 741(f) of the PHS Act in return for an individual's practicing in a health manpower shortage area." (The "Agreement for Loan Repayment" provision may be reactivated in the future, but only if federal funds become available for such.)

Failure to Complete Studies

The Public Health Service Act, as amended, provides authorization for the Secretary of Health and Human Services to repay all or part of educational loans received by nursing or health professions students from low-income or disadvantaged families when a student has failed to complete his or her studies and the borrower's family can meet the specified criteria.

The purpose of this provision is to remove the burden of indebtedness if, for academic, economic, or medical reasons, students are forced to leave school before completion of their studies.

The extent to which the Secretary of Health and Human Services will repay eligible loans is determined by availability of funds appropriated for this section of the statute. (Currently, federal funds are not available for this provision.)

Application materials are not readily available to institutions for distribution to students. Although information bulletins are available to institutions, application kits must be obtained directly from DHHS by those students who may be considered eligible for this repayment provision; only those who ceased to be students on or after November 18, 1971 are eligible. Only loans executed on or after that date are eligible for repayment.

The applicant must certify that:

1. The loans were solely for educational purposes;
2. He or she ceased studies on or after November 18, 1971; and
3. He or she has not resumed such studies and does not intend to resume them within two years.

In order for DHHS to review and determine the applicant's eligibility for repayment, the following criteria are used:

Applicant	Factors to Be Considered
1. Failed to complete studies.	1. Certification by health professions school that the applicant ceased to be enrolled after November 17, 1971.
2. Is in exceptionally needy circumstances.	2. Consideration of applicant's: • net financial assets • potential earning capacity • relationship of applicant's income to low-income levels published annually in the *Federal Register* by the Secretary, DHHS.
3. Is from a low-income family.	3. Family's annual income is below levels published annually by the Secretary. Family has no substantial net financial assets.
4. Is from a disadvantaged family.	4. Family's annual income, less unusual expenses, does not exceed low-income levels published annually by the Secretary.
5. Has not resumed his or her health professions studies within two years following the date the individual ceased to be a student; and	5. Certification by applicant.
6. Is not expected to resume his or her health professions studies within two years following the date on which the individual ceased to be a student.	6. Consideration of the applicant's failure to complete these studies, taking into account such factors as: • academic problems, • medical problems, or • financial difficulties.

All personal circumstances of each student must be considered to determine whether he or she meets all factors within the criteria.

Suing A Defaulted Borrower

When Suit May Be Appropriate

When a college or university has diligently attempted to collect an educational loan from a borrower without success, bringing suit against him or her may be the only way in which the institution can recover its funds. The NDSL program has required since 1978 that, as part of due diligence procedures, the institution *must* bring suit if the borrower:

1. Owes more than $500;
2. Can be located and easily served;
3. Has assets that may cover all or most of the outstanding debts; and
4. Has no known defense.

(The institution should note that a borrower's job is considered an asset.)

The institution may sue a borrower even if the above conditions are not met; however, collection department staff should have reason to believe that litigation will result in successful collection of the debt and that the amount recovered will be worth the cost and effort of taking legal action.

Institutions that participate in HPSL and NSL programs are required to institute legal proceedings against the borrower after all other attempts at collection have failed, if appropriate.

An institution may decide to sue a borrower despite the borrower's lack of assets, since such a suit would protect the account against the expiration of the statute of limitations. Once a judgment is obtained, a new statute of limitations applies on the judgment that, in most jurisdictions, is a longer period than the statute on a written contract, such as a promissory note. This allows more time for the borrower to build up assets and for the institution to locate assets and execute the judgment.

To be successful in a lawsuit, institutions must have tried other methods of collection. A court usually does not grant a favorable judgment if the institution has not given the borrower adequate opportunity to pay the debt before seeking a court decision against the borrower. The NDSL due diligence steps (Exhibit NDSL-44) are a good example of the types of actions an institution should take prior to litigation. Collection staff should carefully document all attempts to collect the loan and include this information in the borrower's file. Any requests for deferments and notification of deferments granted should be included in the file. Such documents may be needed if the borrower challenges the institution's right to collect the loan.

Type of Legal Action

The use of a promissory note in an educational loan program creates a written contract between the institution as creditor and the student as borrower. If the borrower fails or refuses to repay the loan under terms and conditions of the promissory note, a breach of contract occurs. If the institution then turns to the legal system to collect on the note, the case is termed a breach of contract. The institution becomes the plaintiff and the borrower, the defendant.

Judicial procedures vary from jurisdiction to jurisdiction, and often there are subtle but important differences in the way contract language is interpreted and enforced. Institutions should become familiar with the ways their local courts handle legal contracts and, if possible, work closely with institutional attorneys in deciding, both in general and in specific cases, when it is appropriate to litigate and how litigation should be handled. Local procedures affect the issues presented later in this section and loan collection administrators should consider practices of local courts before developing policies in these areas.

In many cases, suit over an educational loan can be heard in a small claims court, which handles certain types of litigation under a specific dollar amount. However, states vary in the ways

their small claims courts are structured and the types of cases heard by these courts. Usually it is not necessary to use an attorney in a small claims court and, in some cases, attorneys are prohibited. However, an institution may wish to use an attorney, when allowed, if a borrower files an answer contesting the institution's right to collect on the loan.

Institutions should explore the role of the small claims court in their states to determine which kinds of cases it is structured to hear. In some jurisdictions, institutions using a small claims court may be required to waive their rights to appeal the decision if a judgment against the borrower is not granted. Nevertheless, arguing a case in a small claims court usually is simpler and more expedient than taking the case to a higher court. Most higher jurisdiction courts have a backlog of cases and it is not unusual to wait a year or more before the case can be heard. If an institution wants to have the case heard in a small claims court but the total amount of the suit is over the small claims limit, the total often can be split into two or more legal actions against the borrower—each under the limit of the small claims court. The institution's attorney should be consulted on whether splitting the debt is allowed and is appropriate and desirable, given the circumstances surrounding the debt.

Legal Procedures

Court procedures vary from state to state and from jurisdiction to jurisdiction. The procedures described below are for small claims courts; however, they are very similar to procedures in courts of more general jurisdiction. Collection staff should become familiar with the requirements of their local small claims court or the court they will use most often in litigation against borrowers. Staff in the court clerk's office can be very helpful in guiding collectors through the litigation process. (See Exhibit LEGAL-69 for a list of questions to ask the court clerk's office in preparation for a hearing.) After collection staff have been through the legal process a few times, procedures become routine.

Cases in a small claims court may be heard before a magistrate or a judge, and the defendant may have the right to a trial before a jury. Generally, since the case is a breach of contract, it is better if the case is tried by a trained jurist rather than by someone untrained in the law.

Some jurisdictions, such as Pennsylvania, impose a mandatory arbitration procedure in certain circumstances. In this procedure, cases are decided by an arbitration panel of attorneys rather than by a judge. However, in most courts the case will be heard by a judge.

Sometimes the institution must sue a borrower in the jurisdiction in which he or she resides. The institution then needs the assistance of an attorney who is familiar with legal procedures in that jurisdiction (see pp. 96-97 for finding an attorney in another jurisdiction). However, many states have "long-arm" statutes that allow institutions to bring suit against the borrower in the jurisdiction in which the loan was signed. Usually, it is easier for an institution to work through local courts where procedures are familiar and collection staff know the court staff and judges. Courts often charge an extra fee if a summons is to be served to a borrower in another state, but the extra cost is minimal. If the institution decides to sue the borrower in the jurisdiction where he or she resides, it is usually easiest to work through an attorney in that jurisdiction.

Steps in Suing a Borrower

Filing a Complaint

The first step in suing a borrower is to fill out a warrant or complaint—terminology varies—against the debtor. The institution is asked to provide such information as purpose of the debt, date the debt was incurred, amount, and interest accrued. The institution should also include collection costs, court costs, and attorney's fees. States vary on types of information and level of specificity required in the warrant. For example, some states ask for the precise amount the institution seeks to recover from the borrower. Here the institution must be careful to include principal, interest, penalties, collection costs, attorney's fees, and known filing fees. Other states award judgments for the amount stated on the warrant or complaint "plus costs." This allows institutions to recover legal costs not known when the warrant was completed. Still other states put a limiting amount on the warrant, stating that the borrower is being sued for "under X dollars." In this case, it is to the institution's advantage to make sure the figure is high enough to protect against unforeseen costs, as the amount recovered may not exceed the amount stated.

The warrant or complaint should be signed by an institutional officer who is authorized under institutional policy to involve the institution in

legal actions. The document also may require the signature of an attorney. In some institutions the authorized officer may be an attorney.

Once the warrant or complaint is completed, the institution may want to give the borrower one last chance to repay the loan by sending him or her a copy of the warrant by certified mail, together with a notice that, if the borrower does not pay by a certain date (for example, within thirty days), the institution will file the document in a court of law. Often this action is sufficient to induce a borrower to repay the debt. If the borrower does not repay by the deadline, the institution must file the document with the court or may violate any local laws that prohibit the lender from threatening any action it does not intend to carry out. (Third party collectors, such as collection agencies, may be in danger of violating the Fair Debt Collection Practices Act.)

The warrant or complaint is filed with any other necessary documents and a filing fee. Filing usually must be done in person. The court clerk can provide information on documents that must accompany the warrant, number of copies required, and amount of the fee. Fees vary between about $25 and $75, depending on the state's fee structure and on whether the warrant is to be served locally or in another state. The warrant or complaint may be filed by a loan collection staff member, other institutional staff, or the institution's attorney, depending on requirements of the court.

Notifying the Borrower

The court has the responsibility of notifying the debtor (borrower) that he or she is being sued, *provided the debtor's address is correct*. It is most important that the institution have a valid address for the borrower before bringing suit. This underscores the need to collect detailed information about the borrower while he or she is attending the institution and check this information carefully at the exit interview.

Ways of notifying the debtor vary from state to state. Generally he or she is served with a summons and complaint. A summons (Exhibit LEGAL-70) informs the borrower of the suit, the time within which he or she must answer the complaint, and consequences of not answering. The complaint sets forth institutional charges against the borrower. In legal terms "to serve" means to make legal delivery of a court document, which may be served by a local sheriff or deputy of the court. In some states the plaintiff (the institution) must hire a marshall or a process server to serve the complaint. State law determines how documents can be served; typically, the server tries to reach the borrower at several different times of day. If the borrower cannot be reached, the court notifies the lender, who must verify the address and begin the process again from the beginning. The institution is notified by the court when a warrant or summons has been served.

Once legal documents stating the institution's complaint are served to the borrower, the latter usually has the right to file a written response setting forth his or her admission or denial of the charges. This is called the borrower's "answer." Most educational loan complaints are not answered by the borrower.

Judgment

Institutions may want to include in the request for judgment (another term for the warrant or complaint) all the borrower's other outstanding, past-due obligations to the institution, for example, tuition, room, board, library fines, room damage charges, or bad checks. In some jurisdictions the court may not allow institutions to sue for some past-due obligations at a later date when other past-due obligations were litigated earlier.

To protect against the suit being thrown out of court because, for example, one promissory note is faulty and therefore not legally binding or documentation supporting one obligation is judged to be defective, each promissory note and each other obligation may be described in the complaint as a separate count. Each note or obligation also is governed by a separate statute of limitations depending on when that particular obligation was not honored. Listing them separately allows the court to act on each obligation individually as the court feels is appropriate. A court may reject some obligations and accept others. If they are listed as a single item, the court's rejection of one obligation may result in loss of a judgment against the borrower for all obligations listed.

Faulty Notes

Even if a promissory note has not been signed properly or is otherwise faulty, institutions still may be able to litigate the account successfully. The law in many states recognizes that a lending institution may recover funds if the institution is able to demonstrate that funds were advanced to

the student and the student received them (for example, a cancelled check bearing the student's signature), or that the check was in an amount identified in an award letter to the student, and that disbursement of funds followed the student's application for a loan. (Such evidence of disbursement may be necessary even with a properly executed note.)

Once a judgment is obtained, the judgment, rather than the promissory note, serves as the basis for all future collection efforts. It becomes the legal embodiment of the borrower's obligations. This means that, while the Department of Education (ED) will not accept as an assignment a loan with an unsigned promissory note and unsigned advances, the Department will accept that same loan if it is accompanied by a judgment. The Department's ability to collect on the loan is then based on the judgment, not on the faulty promissory note.

Accelerating Defaulted Loans

Under all federal student loan programs, institutions have the right, on the default of the borrower, to accelerate the loan, that is, to require that the entire unpaid amount of the promissory note become immediately due and payable as long as the right to do so is stated in the promissory note. The loan may be accelerated if the borrower fails to make a required payment on time or file for cancellation or deferment on time and he or she is given advance written notice of the acceleration.

Institutions usually accelerate a loan before suing the borrower. While the cost of bringing suit against the borrower argues for accelerating the loan, there may be some circumstances under which institutions would be better off suing for less than the full amount. For instance, the total amount might be higher than the limit for small claims court, in which case the institution might want to litigate on the past-due amount only, thereby avoiding a more expensive and time-consuming suit in a court of more general jurisdiction.

Generally, once a note has been accelerated, the acceleration cannot be rescinded. However, there is a provision in law whereby both parties may mutually agree to transform a prior debt into a new debt; this process is termed a "novation." If the institution and the borrower can agree on new repayment terms, this provision can be used to restore an installment repayment schedule for an accelerated debt.

Preparing for a Hearing

The court usually sets a hearing date as early as possible; in some cases, institutions may request a date at their convenience. Practices vary and depend in part on the number of cases the court handles.

Thorough preparation for this court hearing is probably the most important step in suing a defaulted borrower. Past institutional performance is a factor in any decision and a reputation for competence and reliability when bringing defaulted borrowers to court helps the institution's case. An institutional record of trying all other avenues before bringing suit, of giving the borrower ample opportunity to bring his or her payments up-to-date, of having accurate and complete records of prior actions, and demonstrating an understanding of legal issues involved in the suit are all important. The worst thing loan collection staff can do is destroy the institution's credibility with the local court by bringing faulty documents to a hearing or by otherwise being ill-prepared to discuss the case.

One useful technique to insure adequate preparation is to develop a litigation checklist that can be used to make sure all necessary documents are available in the borrower's file before suit is filed. One institution includes the following materials on its checklist:

1. Collection activity record
2. Copy of final demand letter
3. Collection agency close-out report
4. Any correspondence from the debtor regarding the debt
5. Cancelled disbursement checks, if available
6. Completed litigation worksheet
7. Repayment schedule

The staff member responsible for the account must determine that valid promissory notes do exist and are on hand for use during the court appearance. Any missing documents are listed on the checklist with a brief explanation of why they are missing.

Another useful form is the litigation worksheet mentioned in the checklist. This document gives the borrower's name, social security number, and current address, the loans the borrower has that are in default, total penalty and interest due to date, other obligations of the borrower to the institution, attorney fees, court costs, and the amount of judgment the institution is seeking. It is signed by the staff member responsible for the account (Exhibit LEGAL-71). This document, or a similar summary of the borrower's institutional

debt history, should be given to the attorney who is handling the case or assisting loan collection staff on the case.

Institutional representatives should take the borrower's file, including the promissory note, to the hearing. They also should have a copy of the loan program's statutory and regulatory requirements that are placed on both the borrower and the institution.

Staff members appearing in court should thoroughly familiarize themselves with the case prior to their appearance so they can answer questions quickly and with confidence. This means carefully studying the case prior to appearing in court. Staff also should be familiar with loan program regulations and procedures so that they can answer any technical questions. Some institutions ask staff members who have not previously been involved in litigation cases to go to court as observers while more experienced staff represent the institution. While procedures are not complex, staff members can be more at ease when they first represent the institution if they are familiar with the court and have watched other cases.

Should an Attorney Be Present?

If the case is being heard in a small claims court, institutions may have the option of having an attorney present representing the institution. Whether to do so depends on institutional policy and the institution's past experience in suing defaulted borrowers. Generally, in about 40-60% of cases, a borrower neither answers nor appears and the court declares the borrower in default and awards the judgment to the institution. In about 40-50% of cases, a borrower appears on his or her own behalf and in the remaining 10-20% a borrower appears with an attorney prepared to argue the case. Often a borrower's attorney attempts to get a case dismissed on a legal technicality, or reveals complicating factors of which the institution's collection staff, despite careful preparation, are unaware.

Under these circumstances, it is essential to have good legal counsel. Courts differ in whether they allow the plaintiff (the institution) to ask that the case be passed (postponed) until the institution's legal counsel can be present. If an institution's local court does not have a provision to delay the hearing under such circumstances, it may be prudent to have an attorney present for most, if not all, suits.

If the borrower has an attorney present and the institution does not have an attorney and is unable to postpone the hearing, it may be possible to appeal a decision that goes against the institution. Sometimes a period is given, for example, ten days, during which either party may appeal a small claims decision. A bond may be necessary. Again, it is most important that collection administrators know the practices of the local court.

Statute of Limitations

Statutes of limitations are state laws that limit the time in which suits can be prosecuted. This period varies from state to state. In some states statutes of limitations do not apply to state institutions; in some states they do not apply to educational loans.

In general, it is best to assume that the period of limitation begins to run on the first day a borrower's installment becomes overdue or the borrower otherwise is in breach of the promissory note. The period begins to run separately on the date each installment becomes delinquent unless the loan is accelerated; that is, the institution declares the entire amount due and payable under the terms of the note. This means that a nonaccelerated note payable quarterly over a ten-year period would have separate limitation periods for each of the 40 installments.

Usually, the period of limitations is suspended (or in legal terms, "tolled") during any period when the loan is not in repayment, for example, when a borrower's loan has been deferred by the institution. In addition, state laws may toll the running of the limitation period when the state determines that suit against the borrower is not convenient or possible, for instance, while the borrower is a minor, if he or she is fraudulently concealing his or her whereabouts, during a bankruptcy proceeding, or when the debtor is outside the state. States vary in the circumstances that suspend the period of limitations. Some states exempt the state and its agencies, including state institutions from the statute of limitations. Student loans made by state schools would have no period of limitations in such cases.

It is important that the institution be familiar with the laws of its state regarding the statute of limitations. Often a new period of limitations begins when the borrower acknowledges the debt in some manner. State law varies in the form the acknowledgment must take but the state may simply require some payment on the loan or a written acknowledgment of the debt signed by

the debtor and sent to the creditor, or it may require both some payment and a written acknowledgment.

A complaint filed before the statute of limitations expires is usually considered within the time period. However, some states require that both the summons and complaint be served to the borrower within the limitations period.

Finally, and importantly, the statute of limitations is legally an affirmative defense. This means that in order for the expiration of the statute of limitations to be considered, the borrower must raise this defense in his or her answer to the institution's complaint. Often institutions have successfully obtained a judgment even though the statute of limitations already had run out because the borrower did not raise this defense. Whether or not to litigate loans for which the statute of limitations has expired should be decided on a case-by-case basis by the institution and its attorney after taking into account the circumstances of each case.

The institution's substantive right to be repaid by the borrower does *not* expire when the statute of limitations expires. The institution may no longer use the courts to enforce the contract; however, the loan still can be reported as an unpaid debt to credit bureaus, and salary offset (automatic deductions from paychecks) and withholding of services (such as providing academic transcripts) still may be used to encourage repayment of the debt. Institutional counsel may be consulted before so proceeding.

Settling the Suit Out of Court

The institution may want to give the borrower a last opportunity to settle prior to the hearing date. By that time the borrower knows the institution is serious about collecting the loan and may be anxious to avoid going to court.

Many times a borrower appears at court and asks for a last-minute settlement before the case is heard. Or the court may encourage both parties to settle, if possible, without the case coming to trial. The institutional representative at the hearing should have authority to negotiate a settlement and, prior to the hearing, loan collection staff and the institution's attorney should decide on settlement terms that are agreeable to the institution.

Amount of Settlement

Institutions should try to recover the full amount of the suit but sometimes this is not possible and the institution must agree to a compromise amount. Penalty charges and collection costs, including court and attorney fees, often are used as bargaining tools in pretrial negotiations. The institution may be willing to waive these costs in return for full repayment of the account. This tool is less useful to institutions in states that do not allow collection costs to be passed on to the borrower or limit the amount of costs that can be collected from the borrower.

The institution also may agree to accept less than the full amount of principal and interest due, except for HPSLs and NSLs; DHHS does not allow institutions to settle for less than the full amount borrowers owe on these loans. A compromise decision should be made with the advice of an attorney, considering the institution's fiduciary responsibility for loan funds and taking into account the following factors:

1. Likelihood of collecting if the institution obtains a judgment;
2. Borrower's present or future financial prospects; and
3. Possibility of the borrower having legal defenses to which the institution could not respond.

Usually, at a minimum, the institution should try to collect the total outstanding principal balance.

Obtaining a Judgment

If a settlement is made out of court, the institution should ask the court for a judgment reflecting terms of the agreement. This protects the institution should the borrower not honor his or her part of the agreement and, also important, initiates a new statute of limitations, allowing additional time for future collection efforts. Further, by reducing the settlement to a judgment, the institution has discharged its obligations under NDSL due diligence procedures.

Usually, the institution has several months in which to file the judgment with the court. The institution can notify a borrower that it will not file the judgment as long as the borrower keeps the terms of the agreement. Institutions should ascertain from the court how much time they have to file a judgment.

Repayment Periods

Some institutions recommend that any settlement at this point should require the borrower to pay a substantial portion of the amount owed

immediately and discharge the remainder of the debt in the shortest time possible, preferably within 12 months. However, institutions may successfully recover funds over a longer payment period, especially if the agreement is in the form of a judgment.

After Obtaining a Judgment

The judgment represents the court's decision on a breach of contract case. Whether it is rendered in favor of borrower or institution, the judgment replaces the promissory note as the legal embodiment of the borrower's obligation. As noted previously, when the judgment is entered for the institution, that judgment, rather than the promissory note, serves as the basis for all further collection efforts. Benefits in the promissory note no longer apply, including deferments, cancellations, repayment schedules, or even the interest rate. Instead, the laws of the state concerning judgments apply to the debt. The applicable interest rate (the "legal rate") is usually considerably higher than the federal loan interest rate prescribed in the promissory note.

The judgment is subject to modification until it is recorded or filed with the court. In some jurisdictions the court files the judgment automatically; in others the plaintiff must file the judgment. There may be an appeal period that must be allowed to expire before the judgment can be filed and probably a time limit for filing. A judgment is given for a prescribed period; however, if the debt is not collected during this time, the judgment usually can be renewed or extended for a nominal fee.

Using the Judgment for Debt Collection

A judgment is basically a tool that can be used in collecting a loan. (See Exhibit LEGAL-72 "Application for Execution to Satisfy Judgment.") In and of itself, it does not guarantee that the loan can be collected. Often the same financial problems that kept the borrower from repaying the loan as scheduled prevents the institution from executing, or collecting on, the judgment. However, if a borrower's refusal to pay comes from reluctance to sacrifice a portion of current or future assets to meet past obligations, the judgment can be a powerful tool as it affects the borrower's ability to obtain consumer credit.

Obtaining credit. A borrower with a judgment on his or her record finds it difficult, if not impossible, to obtain credit for any purpose. Usually, the borrower becomes anxious to pay the debt and reestablish a good credit record. Institutions should strongly consider advising local credit bureaus of the judgment even though some credit bureaus may receive this information directly from the court. If the borrower is out of state, the institution may want to notify the borrower of the judgment, stating that if payment is not received within, for example, 30 days, the institution will notify the borrower's local credit bureau.

Attachment or garnishment. Some states allow creditors to use attachment or garnishment procedures against debtors once a judgment has been obtained. Attachment means to seize by legal process; garnishment is a form of attachment directed against assets of a debtor which are in the hands of third parties and it is used usually when wages are seized. Both state and federal law exempt a substantial portion of a debtor's earnings from garnishment. If the state allows garnishment, the court clerk can describe forms and procedures an institution must use to garnish the borrower's wages. Often, garnishment forms must be filed periodically to enable the creditor to continue to receive a portion of the debtor's wages until the debt is satisfied.

If the institution cannot or does not wish to garnish wages, state law may allow attachment of other assets such as real estate, cars, furniture, or checking accounts. Attachment procedures often are complex and institutions need to consult with legal counsel about whether this approach is available in the state and, if available, when it would be appropriate. In some jurisdictions, courts have special procedures that can be used to require a debtor to reveal under oath any or all assets.

Offset. When an institution deducts from the amount it owes an individual all or part of the amount that the individual owes the institution, this is called "offset" and is used in two principal ways for student loans. If the institution is part of a public entity, such as a state, that requires money be withheld for tax or other similar purposes, the excess withheld may be considered a debt the entity owes the taxpayer. In some states, if the taxpayer has a past-due student loan, the tax refund that normally would go to him or her can be applied to the overdue loan.

Offset also may be available when a delinquent borrower is employed by the institution or the larger public entity of which the institution is a part. A portion of the debtor's salary may be

offset subject to federal and state provisions protecting a portion of the borrower's income.

An institution should coordinate offsets with its collection firm. The contract with the firm should state that funds collected through offsets are to be retained in full by the institution. Institutions should inform collection firms of the amounts collected so that agency files reflect the correct amount owed by the borrower.

Even without litigation, institutions have the right to use offset procedures or to withhold certain services, such as providing transcripts, to borrowers who have defaulted on loans. As a precaution, notice should appear in student handbooks—or other institutional publications available to students—that the institution reserves the right to withhold services to students who are in its debt. Such a statement should include language to the effect that a student has a right to discuss the matter with an officer of the institution who is able to resolve disputes. A 1979 United States District Court case in Connecticut ruled that refusal to release a student's transcript did not constitute taking "security" for the loan, in violation of NDSL regulations, and did not deprive the student of property without due process of law. (*Romanelli* v. *Boyer* 48 U.S.L.W. 2245-2246 (1979).)

Endorser Liability

The NDSL, HPSL, and NSL programs allow a cosigner or endorser for the promissory note when the borrower is a minor and, under state law, a note signed by a minor does not create a binding obligation. By law, an endorser is responsible to a creditor only for the amount advanced to a borrower while he or she was a minor under state law.

Loan repayment is not viewed chronologically and, generally, the endorser guarantees any amounts unpaid up to the total advanced to the borrower while he or she was a minor. This means that, if the borrower received a $1,000 loan, $200 while still a minor, repays $800 and then defaults, the endorser is responsible for the remaining $200.

Repayment obligations are different for borrower and endorser. Although, for example, the statute of limitations may have expired for the borrower, it may not have expired for the endorser; state laws vary on this. Deferment and cancellation provisions do not apply to an endorser. Depending on state law, an endorser's obligation may be affected by the borrower's death or disability. Finally, the obligation of an endorser survives the borrower's discharge in bankruptcy and at least one court has held that a creditor may sue a bankrupt, if a judgment is necessary to sue an endorser (*Matthews Cadillac Inc.* v. *Phoenix of Hartford Insurance* Co., Cal. Ct. of App., 4 Civ. No. 16634 (1979)).

Institutions can bring suit against an endorser if a student defaults on a loan; however, usually too small a portion of the loan was awarded while the borrower was a minor to warrant the expense of a suit. Since state laws vary on the obligations of an endorser and rules governing endorsers may be complex, institutions should consult their attorneys when contemplating such a suit.

Assignment

If an institution assigns (legally transfers) an NDSL to ED and a judgment has been obtained against the borrower that includes the NDSL, the institution must legally assign the judgment along with the loan. If the judgment includes other debts, only that portion of the judgment that pertains to the NDSL should be assigned to ED. The remainder of the judgment should be retained in the institution's name. The local court clerk's office should have information on how to assign all or part of a judgment.

ED encourages institutions to withhold transcripts for students whose loans are assigned. Many institutions do not release transcripts until a borrower whose loan has been assigned to ED brings to the institution a letter from the Department stating that satisfactory arrangements have been made for the borrower to repay the loan.

Why Litigate?

Pursuing borrowers who have defaulted on their loans through the court system is a requirement of federal loan programs and a necessity if the institution is to achieve and maintain a basically self-revolving loan program. Yet, many times institutions fail to bring suit against defaulted borrowers because administrators are concerned about the reaction of alumni and the potential adverse publicity when a college or university brings a former student to court.

Institutions can avoid the image of an insensitive alma mater hounding its former students by properly presenting the institution's reasons for

bringing suit. For example, an institution can ask local newspaper, radio, and television staff to a press conference where institutional representatives can explain why a campaign to recover lost loan funds is being initiated. Attention can be drawn to the current default rate and why it needs to be lowered, the importance of the loan program to current students, and the need for gaining the attention of former students who are ignoring or taking lightly their obligations to the institution.

Similarly, it is important to address alumni through the alumni newsletter or other publications and explain that borrowers who do not repay student loans undermine the efforts of those alumni who make financial contributions to the institution. Loan funds are necessary for currently enrolled students and, if these funds are not repaid by former students, money for loans must come from funds that would normally be used for other purposes.

The institution can center publicity on how these funds are recycled, how the institution is lowering its default rate, and the importance of encouraging defaulted borrowers to accept the responsibility for their obligations. Institutions may want to cite former students who repaid their loans, especially those who did so under difficult financial circumstances, and point out that it is unfair to these students that other borrowers fail to shoulder the same responsibility.

These initial publicity efforts can be followed by reports on how the institution is succeeding in recovering funds and lowering its borrower default rate. This will continue to place emphasis on the positive aspects of litigation.

Tools needed to successfully bring a defaulted borrower to court include a positive attitude about the benefits of establishing or reestablishing a responsible lender-borrower relationship, comprehensive written procedures for litigation that reflect current conditions within the institution's legal jurisdiction, careful preparation of cases, and sound legal assistance. Loan collection staff with these resources can well and confidently represent the institution in court with the knowledge that their efforts will help the institution recover valuable, and often scarce, loan funds for present and future students.

The Family Educational Rights and Privacy Act and the Use of Credit Bureaus

A major law that affects all educational institutions is the Family Educational Rights and Privacy Act, often referred to as FERPA or the Buckley Amendment. The act was passed by Congress in 1974, in part to guard against indiscriminate disclosure of information from student educational records. FERPA is administered by the Department of Education (ED). As with other legislation, what is and is not permissible under this law often is a matter of legal interpretation. FERPA affects the disclosure of a student's financial aid records; an early interpretation of FERPA made exchange of information between institutional lenders and credit bureaus impractical because credit bureaus were not allowed to redisclose the information—and redisclosures are an integral part of the credit information-sharing process.

In 1981, ED's Office of Student Financial Assistance, recognizing the important role credit bureaus could play in overall collections efforts, requested and received a legal reinterpretation of FERPA. This revised interpretation permits an institutional lender to make disclosures of student loan default information to a credit bureau without requiring the previous restrictions on redisclosures. In addition, an institutional lender may, as part of its collection effort, disclose student loan default information to a credit bureau without prior consent of the borrower. However, if the institution intends such disclosure, it is good practice to notify the borrower 30 days (or a reasonable period) prior to the date the report is sent. In turn, the credit bureau may make normal redisclosures to third parties in keeping with its legitimate credit information activities.

Because use of credit bureaus is based on an interpretation of FERPA, this chapter describes the circumstances under which student information, other than information in public files, can be disclosed. Basically, FERPA specifies when, how, and to whom educational records or information from those records—including student aid records—can be disclosed. The act protects the student by allowing him or her some control over ways the records are used and who has access to them. It insures that the student in all cases will have access to them and can challenge their contents if he or she has reason to believe the information is incorrect. The institution should be ready to provide information to the credit bureau if asked, to clarify any matter disputed by the debtor and, if necessary, to amend its records.

Disclosure of Information

Section 1232 of the Act specifies to whom and under what circumstances information from records can be disclosed. FERPA regulations were published in the May 9, 1980 *Federal Register*, pages 30911-30918. Section numbers below refer to these regulations. Institutions *must* disclose the student's educational records or information from those records to the student.

Under section 99.31 of FERPA, the institution *may* disclose educational records or information from those records *without the written consent of the student* to:

1. State and local officials to whom disclosure is required by a state statute adopted prior to November 19, 1974;
2. For purposes of audit and evaluation of federal and state-supported programs, authorized representatives of the U.S. Comptroller General, the Secretaries of Education and of Health and Human Services, and state educational authorities;
3. Institutional personnel whom the institution deems have legitimate educational interest;
4. Officials of other institutions in which the

student seeks to enroll, providing the institution makes a reasonable attempt to inform the student of the disclosure or makes transfer of such information a stated institutional policy;

5. Persons or organizations providing financial aid to the student or determining the student's eligibility for financial aid, amount of the aid, conditions that will be imposed on the student, or enforcing the terms or conditions of financial aid;

6. Organizations conducting studies to develop, validate, and administer predictive tests or administer student aid programs, or improve instruction, providing personal student identities are not disclosed, information is destroyed when no longer needed, and the organization assures the institution in writing that it will comply with these requirements;

7. Accrediting organizations carrying out accreditation procedures;

8. Parents of a student defined as dependent by the Internal Revenue Service Code of 1954, Section 152;

9. Persons in compliance with a judicial order or legal subpoena, provided the institution first makes a reasonable attempt to notify the student; and

10. Persons in an emergency when the disclosed information is necessary to protect the health or safety of the student or other person.

In all other circumstances, except for records identified as public or "Directory Information," the student must give written consent before records can be disclosed. This consent must specify the records to be disclosed, the purpose of the disclosure, and the person or organization to which disclosure is made. It must be signed and dated by the student. Directory information as defined in FERPA includes the student's name, address, telephone number, date and place of birth, fields of study, participation in officially recognized activities and sports, weight and height if an athletic team member, dates of attendance at the present institution, degrees and awards received, most recent educational institution attended before the present institution, and other similar information as defined by the institution.

Under section 99.33, institutions must inform persons or organizations to whom personally identifiable information is released that they may not disclose the information to others without the student's written consent. According to written correspondence with the Review and Compliance Branch of ED, "Schools may disclose to credit bureaus, which in turn may redisclose to other credit bureaus without student consent *only as may be necessary* 'to enforce the terms and conditions of financial aid' for student loan defaults . . . Credit bureaus must inform those parties to whom it (sic) rediscloses information of the conditions of the FERPA regulations contained at 34 CFR (Code of Federal Regulations) 99.33, *Limitation on Redisclosure*."

The section of FERPA to which the Department refers states that personally identifiable information from a student's education records may be disclosed only on the condition that the party to whom the information is disclosed will not disclose the information to any other party without the prior written consent of the student except that the information disclosed may be used by the officers, employees, and agents of the agency or organization to which it is disclosed, "but only for the purposes for which the disclosure was made." (99.33(a))

Section 99.33(b) notes that section 99.33(a) does not preclude an agency or institution from disclosing personally identifiable information to those listed in section 99.31 with the understanding that the information will be redisclosed to other parties under section 99.31 provided that all parties keep records of those who request or receive this information and their legitimate interest in the information.

Credit bureaus by law may disclose information only as part of their legitimate credit information activities.

Except when disclosures are made to the student, at the written request of the student, or to a school officer, the institution must maintain a record of requests and disclosures of personally identifiable information. The record must be made whether or not the disclosure requests are granted and must include names and addresses of persons making the request and their legitimate interest in the information. This record becomes a part of the student's education records.

Education records, then, may be disclosed without the student's written consent to persons or organizations enforcing terms of the student's financial aid. This provision allows institutions to exchange information with credit bureaus. ED's sample NDSL promissory note notifies the student in Section V, "Default," that a credit bureau may be used. The student, by signing the note, acknowledges:

"I understand that if I default on my loan

repayment, the Lending Institution may disclose that I have defaulted; along with other relevant information, to credit bureau organizations."

Institutions may wish to include similar language in promissory notes of other loan programs so that the student knows from the outset that this is a condition of the loan agreement.

Failure to Comply

FERPA applies to all educational agencies or institutions that receive funds from a federal program for which the Secretary of Education has administrative responsibility. There are no criminal or civil penalties associated with FERPA. Any complaints about institutional violations of FERPA provisions are submitted to a review office in ED. If, after investigation, the Department finds the institution is not complying with FERPA, it sets forth specific steps necessary to bring the institution into compliance and allow the school "a reasonable period of time" to correct its procedures. If the institution does not do this, the matter is referred to a review board for a hearing. If, after the hearing, the Department finds the institution is unwilling to comply voluntarily, the Secretary has the authority to terminate all ED funds that go to the institution.

State consumer privacy or open records laws also may set limits on the use of credit bureaus by educational institutions. Before joining a credit bureau, collection staff should consult the institution's attorney or other legal counsel on laws affecting disclosures to and from credit bureaus in the state in which the institution is located.

Use of Credit Bureaus

Membership in a credit bureau is one of the most effective loan collection tools an institution can have. Sooner or later almost all borrowers must use credit for buying a car, major appliances, a house, or even a business. Furthermore, in this credit-dependent society, most borrowers are aware of the need to establish a good credit record. If the only information on their record concerns a defaulted student loan, they almost certainly will find it difficult to obtain credit elsewhere. Concomitantly, if the record shows they are repaying such a loan regularly and on time, creditors are much more likely to extend them other types of credit.

In many cases, mortgage companies or banks lending mortgage funds cannot grant credit for purchasing a house to any person who is overdue on a major loan. If a financial institution finds a defaulted student loan on a potential home buyer's credit application and the buyer's other credit references are in order, the lending agency often contacts the college or university and, with the buyer's permission, lends the buyer funds to pay off the student loan as well as funds to buy a home. Once the borrower repays the student loan, his or her credit is in order and the lending agency is able to fund the mortgage.

Most credit bureaus are part of regional or national networks, exchanging credit information; thus, a credit bureau can be a good skip-tracing tool to locate lost borrowers throughout the country. Credit bureaus have records not only of a borrower's place of employment and credit he or she received, but also inquiries from potential creditors. Often lenders can locate borrowers simply by contacting the most recent creditor or potential creditor.

Credit bureaus also can be used before a loan is made to verify other debts and obtain an indication of credit worthiness of a potential borrower. This is particularly useful as the student population changes and more older students enter higher education and apply for financial aid. If such a student already has many debts, it may be better for the student if the financial aid office relies more on other types of aid, such as grants or work, rather than loans, in order to avoid having the student leave the institution with an unmanageable debt burden. While federal aid is based on student need only, the type and mix of student aid programs used is, for the most part, at the financial aid officer's discretion.

What a Credit Bureau Does

Essentially, a credit bureau is a clearinghouse of consumer credit information that allows a potential creditor to examine a customer's past credit record before deciding whether or not to extend new credit. A creditor must know how a customer handled similar obligations in the past in order to estimate chances that a debt will be repaid. The cost of granting credit would be prohibitive if a creditor had to gather sufficient information to make this judgment about each credit customer without some sort of central data base.

Credit bureaus gather their data from different sources. Information such as the person's name, spouse's name, address, former address, em-

ployer, former employer, and social security number come from the credit application. Merchants and other creditors regularly supply credit bureaus with information on how promptly a person pays his or her debts. The bureaus also obtain information from public notices such as those of divorces, marriages, bankruptcies, court judgments, dispositions of lawsuits, and deaths. Only factual information is retained. Credit bureaus do not rate accounts but provide sufficient information to allow potential creditors to make ratings. There is a limit on how long credit bureaus may keep adverse credit information on a debtor. By law, except for inquiries for large loans or employment purposes, credit bureaus cannot report information on credit defaults or delinquencies beyond seven years, or information on bankruptcies beyond ten years.

A code system insures that credit information is released to only bona fide members of the credit bureau. Any credit bureau member that discloses information about a person for purposes other than obtaining credit or employment is subject to a heavy fine or imprisonment. The Fair Credit Reporting Act of 1971 closely regulates credit bureaus and provides legal protection of an individual's privacy during the credit information exchange process.

Borrowers should understand that they have full access to their credit files and may review their records at any time, although there may be a small fee. Borrowers may have any errors corrected in credit bureau files, ask for a reinvestigation of anything they feel is questionable and, in case of a dispute, file a brief explanation of their side of the disagreement in the bureau's records. This becomes a permanent part of their credit record.

Credit bureaus usually are members of regional or national networks. Bureaus that are part of one of these networks regularly exchange credit information; however, credit information generally is not exchanged between different networks.

Institutional Responsibilities

As members of credit bureaus, loan staff should be familiar with the provisions of the Fair Credit Reporting Act of 1971. All information obtained through credit bureaus is confidential and institutions should take steps to insure that such information is used only for collection purposes.

Institutions will receive calls from other creditors concerning a borrower's credit. As a fellow member of the bureau, the institution must be prepared to respond to these calls and know which information it must disclose and which it does not need to disclose. The credit bureau can provide this information to members.

An institution that supplies information on a borrower to a credit bureau must report to the bureau any changes in that information, for example, if a borrower completes payment on an account or brings a delinquent account up-to-date.

Which Loans Can Be Disclosed?

An institution may exchange information with credit bureaus on defaulted loans only, or on all loans made by the institution. However, if the institution wishes to list all loans, it must obtain the borrower's written consent for those loans that are not in default. This can be done as part of the loan application process. A statement can be included in the promissory note, the rights and responsibilities statement, or some other document signed by the student at the time the loan is made. The statement should indicate the period during which such disclosure will be made and the availability of name(s) of credit bureau(s) the institution uses, for example:

> "I understand that any loans I receive from (*name of institution*) during the time I am enrolled may be reported to a credit bureau and I understand that I can obtain the names of the credit bureaus currently used by the institution from the (*specify the office where this information will be available*)."

Institutions may wish to inform a student borrower of the advantage of having his or her loan reported to a credit bureau. Report of prompt repayment of loan installments becomes part of the student's credit record and, since it is often difficult for a student to establish credit when he or she has just left school and is starting out, this record can be useful when the borrower seeks credit for other purposes.

If an institution exchanges information with credit bureaus on defaulted loans only, such a statement to the student is unnecessary. However, it is advisable to state in the promissory note that the institution reserves the right to disclose information on defaulted loans to credit bureaus, thus giving the student advance warning. An institution may want to notify borrowers of its intention to disclose a defaulted loan to a

credit bureau before the loan is reported (Exhibit LEGAL-73). This notice alone may be sufficient to cause the borrower to contact the institution and make repayment arrangements. Some credit bureaus provide descriptive brochures about their activities, which note the importance of establishing and maintaining a good credit record. Such brochures can be sent to defaulted borrowers with the notification letter to help them understand the seriousness of remaining in default.

Timely reporting of a borrower's default to one or more credit bureaus may help prevent him or her from going deeper into debt and may improve the chances of settling current accounts satisfactorily.

How Is Credit Information Exchanged?

There are various ways to exchange information with credit bureaus: (1) by telephone or mail, (2) by use of a teleprinter and telephone coupler, (3) through immediate computer-to-computer communication, or (4) by tape exchange. The method chosen depends on the bureau(s) joined by the institution, volume of loans reported and credit information requested by the institution, and the degree to which the collection office has access to, or can obtain, data processing or communicating equipment.

Loan file information may be requested by the institution over the telephone or by mail with an oral and/or written report from the credit bureau. Some small, local credit bureaus are not computerized and can exchange information only by this means.

Institutions that have access to or can purchase a teleprinter with a telephone coupler can send and receive information quickly. Often information is available through the teleprinter at times other than normal business hours. Computer-to-computer service is another option and permits an institution with a large volume of loans to communicate on-line with the credit bureau, that is, through direct communication between the central processing units of the institution and credit bureau computers.

Information also can be exchanged by using computer tapes. Batches of information or requests can be sent to the credit bureau with responses returned by tape, printed hard copy, or both. This allows the institution to schedule collection work around the arrival of tapes.

Different credit bureaus have different options. Some bureaus provide free training to institutional personnel in the bureau's procedures for sending and receiving credit reports.

What Information Is Available?

Reports on borrowers include such information as the borrower's name and address, his or her employer's name and address, current accounts (including date each account was opened, account number, type, terms, and amount of the account when it was opened, balance currently due and any amount past due), a twelve-month payment profile on each account (including number of days any payment was overdue), information on any legal actions such as judgments or bankruptcy, and state and federal tax liens.

Such information is extremely useful both in locating a lost borrower and in giving the loan office some indication of the borrower's ability to repay the loan. The report also is useful when deciding whether or not to bring suit against a defaulted borrower, since it includes information on the borrower's current employment and thus on the likelihood of the borrower's being able to pay.

Credit bureaus often have a special skip-tracing service called "skip watch." When an institution queries a credit bureau about a borrower and the borrower is not listed in credit bureau files, the bureau places a note in its file and, if a report comes in on the borrower, notifies the institution. The fee for this service at the time this was written was between $1-$3 per borrower for each month the skip watch continues. This is useful when the institution knows the geographical location in which the borrower is located but not his or her address. Sooner or later the borrower probably will apply for credit.

More Than One Credit Bureau?

As noted earlier, credit bureau networks vary in the areas of the country they cover. The amount of geographical coverage the institution needs depends on how the institution's borrowers are scattered. An institution whose students tend to remain in the local area or in the state after they leave school may want to use credit bureaus that give only state or regional coverage. (Such information on students usually is available from the alumni or registrar's offices.)

However, since much of the population is mobile, many institutions also will want to join a credit bureau that covers the more populous areas of the country, particularly those areas to

which their students tend to go. As of this writing, no credit bureau by itself covers the entire country. Institutions would need to belong to two or three credit bureaus, along with their local bureau, to have access to the entire United States. At the minimum, institutions should belong to a local credit bureau and one covering their state or region.

Credit Bureau Costs

Credit bureaus vary widely in what they charge institutions to join initially and to keep up their membership. Often a small local credit bureau has a low monthly fee for members and an additional small fee for each inquiry or skip watch. Some credit bureaus have an initial membership fee, others do not. Some have a regular monthly fee, regardless of the volume, in addition to charging for inquiries and skip-watch services. Many bureaus have a minimum monthly charge; for example, if the institution does not spend more than $30 during the month on credit bureau services, the institution pays a $30 fee. There is no fee if the institution uses $30 or more in services during the month. Minimum monthly charges vary greatly between bureaus.

All bureaus charge for credit inquiries and skip-watch services. This charge varies among bureaus and depends on how the request and report are transmitted. Usually inquiries by telephone are the most expensive as they take more time for the bureau staff to answer. The least expensive way to make inquiries is through a tape-to-tape exchange since this essentially involves communication between two computers and therefore takes very little of the bureau staff's time to answer. Costs per inquiry average just below $2 if the institution exchanges the information via computer tapes, and slightly more than $2 if tape exchange is not used.

Costs incurred when credit bureaus are used can be charged at least partially to the loan funds for NDSL, HPSL, and NSL programs. In the NDSL program, the only credit bureau costs that can be charged to the fund are costs for skip-tracing purposes. However, the HPSL and NSL programs allow costs associated with membership in credit bureaus to be charged to the loan fund. Regulations governing this use of funds are found in sections 57.205 of the HPSL Final Rules and 57.305 of the NSL Notice of Proposed Rulemaking published in the June 3, 1983 *Federal Register*, pages 25069 and 25076, and section 674.47 of the NDSL regulations published in the January 19, 1981 *Federal Register*, page 5261.

Membership in a credit bureau and proper use of credit bureau services are cost-effective ways to increase loan collections. Often an entire year's cost for credit bureau membership is less than the amount that is recovered from one borrower who otherwise would have remained lost or in default.

Student Loan Borrower Bankruptcy

Institutions sometimes have been hesitant about protecting educational loan funds when a borrower files for bankruptcy. Such cases are confusing, especially when a loan collection staff is unfamiliar with types of bankruptcy, bankruptcy procedures, and legal terminology used in bankruptcy documents.

If a debt is discharged during bankruptcy proceedings, the debtor, by law, no longer is obligated to pay that debt. A bankrupt's debts are discharged as a group; however, some types of debts cannot be discharged in bankruptcy except under exceptional circumstances specified in the Bankruptcy Code. Such a debt is termed "nondischargeable."

Borrowers filing for bankruptcy usually are in an obvious hardship situation and, since educational loans may be discharged if payment would cause undue hardship, institutions have been pessimistic about the nondischargeability of an educational loan. Because educational loans are not specifically labeled as nondischargeable under Chapter 13 bankruptcies, many institutional administrators have felt that courts would approve wage earners' plans that provided for little or no repayment of those loans.

Experience generally has shown this pessimism to be unwarranted. Courts are becoming sensitive to the unique, self-revolving nature of educational loan funds and the importance of their repayment to future students. Courts generally define "undue hardship" as being over and above the hardship that drives a debtor to file for bankruptcy. Many courts also are asking debtors to truly show good faith in their efforts to repay all their debts under a wage earner's plan, including educational loans.

An educational loan is a loan made, guaranteed, insured, or funded by federal, state, or local government or by a nonprofit institution of higher education, to be used for educational costs as specified in the loan's provisions. This includes National Direct (or Defense) Student Loans (NDSLs), Guaranteed Student Loans (GSLs), Auxiliary Loans to Aid Students (PLUS loans), Health Professions Student Loans (HPSLs), Nursing Student Loans (NSLs), and Health Educational Assistance Loans. Funds owned and administered by nonprofit institutions of higher education also would fit this definition. Such loans are not dischargeable under section 523(a)(8)(A) of the Bankruptcy Code.

Loans made from a proprietary (or for-profit) institution's institutional loan funds *would* be dischargeable as the law limits the educational loan exception to funds of a nonprofit institution.

This chapter is intended to make the legal terms and proceedings surrounding bankruptcy more understandable and manageable so that institutions will be better able to take the steps necessary to preserve valuable loan funds.

Bankruptcy among student loan borrowers was infrequent until the mid-1970s. Student loan collection staff had little experience with legal procedures involved in bankruptcy proceedings and many institutional counsels were inexperienced in bankruptcy law. This situation began to change as many more students gained access to educational loans, educational costs rapidly increased, and students out of school were faced with a faltering or uncertain economy. Today, few institutions have not had experience with borrower bankruptcy.

Even though a borrower files for bankruptcy, the institution may be able to collect most, if not all, the student owes. Changes in bankruptcy law, reinforced by legal interpretations, favor continuing a borrower's responsibility for an educational debt despite temporary setbacks in the borrower's financial condition.

Legislative Background

Prior to 1976, educational loans were treated in the same manner as other unsecured debts in

bankruptcy proceedings. In the late 1970s, Congress became concerned about the increasing number of bankruptcies involving student loans, and was especially concerned about reports that some students were being counseled to file for bankruptcy in order to discharge their obligation to repay federal student loans. Accordingly, Congress passed the Education Amendments of 1976, which stated that educational loans insured or guaranteed by the government could be discharged only after five years had passed from the date the repayment period commenced (deferment periods were not counted in determining the five years), unless payment would impose an undue hardship on the borrower or the borrower's dependents. A similar provision, minus the relief for undue hardship, appeared in the Health Professions Educational Assistance Act of 1976.

A similar provision was included when the Bankruptcy Act was amended in 1978. The amended Act is referred to as the "Bankruptcy Code," and it states that a discharge under Chapter 7 provisions "does not discharge an individual debtor from any debt . . to a governmental unit, or a nonprofit institution of higher education, for an educational loan, unless

(A) such loan first became due before five years before the date of the filing of the petition; or
(B) excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents. . . . " (11 U.S.C. section 523(a)(8))

In other words, an educational loan may not be discharged unless it first became due earlier than five years before the bankruptcy petition was filed or if making payments on the loan would cause an undue hardship on the borrower.

However, the Bankruptcy Code provides for several different types of bankruptcy proceedings. Student loan borrowers almost always fall under one of two categories: Chapter 7, sometimes called "straight bankruptcy" (a liquidation proceeding), and Chapter 13, formerly termed a "wage earner's plan" under the Bankruptcy Act (a debt readjustment proceeding). The language mentioned above, exempting educational loans from discharge, appears only under Chapter 7 provisions in the Code. Congress failed to include similar language under Chapter 13 provisions, and this has caused much consternation. Many borrowers have been able to ultimately discharge their educational loans by using this legal loophole. It is hoped that some of the changes in the Bankruptcy Amendments and Federal Judgeship Act of 1984 will assist in closing the loophole, although specific legislation to make educational loans nondischargeable under Chapter 13 was not included in the 1984 Bankruptcy Amendments.

Use of Legal Counsel

It is best to have good legal counsel in a bankruptcy case, since judges differ in their interpretation of the bankruptcy law and the law itself leaves much room for legal interpretation. In any bankruptcy case, loan collection staff can better decide how to proceed if they are familiar with similar cases that were heard by the bankruptcy judge or decided in that jurisdiction. Legal counsel can provide this background. In some states, most judges refuse to hear an objection to a wage earner's payment plan in a Chapter 13 bankruptcy unless it is submitted by a lawyer. It is important to know what is acceptable to the court hearing the case.

Finding Legal Assistance

An institution should first ask its own legal counsel to assist in handling a bankruptcy case or to locate an attorney in the jurisdiction where the bankruptcy petition was filed. Institutional counsel sometimes have reciprocal arrangements with their counterparts throughout the country.

If the institution has no convenient access to counsel, or if its own counsel cannot help, there are at least three possible options. First, regional or state organizations or professional organizations may have access to attorneys who could be of assistance: for example, a state college central administration, the state or regional association of business officers, or student financial aid administrators.

Many collection agencies have nationwide offices and use attorneys in loan collection; thus, institutions can ask their billing or collection firm for help. The firm may be willing to either provide the assistance of one of their own attorneys or recommend someone else.

Finally, an institution can contact either the local bar association or the bar association where the petition was filed. These associations usually have lists of attorneys with expertise in particular areas of law. While they will not recommend any one attorney, they can provide a list of local

attorneys competent in bankruptcy law or any other specialty.

It is important to involve an attorney practicing in the jurisdiction in which the bankruptcy is filed. Courts and judges vary in their practices and it is to the institution's advantage to know the practice of the court where the case will be heard and the judge who will hear the case.

When determining whether to employ legal counsel, the institution should take into account the cost of such assistance, the amount of the loan, the likelihood of preserving the loan from being discharged, and the likelihood of ultimately collecting the loan if it is preserved from discharge.

Chapter 7 Bankruptcy

Any bankruptcy begins with the borrower (debtor) filing a petition before a bankruptcy court (Exhibit LEGAL-74), or the debtor's creditors filing an involuntary petition that puts the debtor in bankruptcy. Under Chapter 7, the borrower files a voluntary petition seeking to discharge both secured and unsecured debts. The borrower also files a schedule that lists creditors for the debts to be discharged and a schedule of his or her assets and liabilities.

If the petition is in order, the listed creditors will be sent a "Notice to Creditors." Courts use various titles for this document, for example, "Order for and Notice of Hearing" (Exhibit LEGAL-75), or "Order for First Meeting of Creditors" (Exhibit LEGAL-76). This document gives creditors instructions on filing a "proof of claim" (if appropriate) and when to object to the dischargeability of the debt, as well as terms of the automatic stay (or ban) (Exhibit LEGAL-77) on further debt collection activities against the debtor (and, in Chapter 13 proceedings, against the debtor and any codebtor). In the case of a debtor with assets beyond those deemed necessary to maintain the necessities of life, those additional assets are liquidated and used to pay creditors for any claims, with secured debts receiving priority.

When the institution receives this notice, all collection efforts against the debtor or the debtor's property must be suspended. The institution must notify any billing or collection firm handling the loan and any attorney assisting in the collection of the account to cease all collection activity. To be prepared in case the debtor argues that the educational loan should be discharged under the five-year rule or hardship provision, the institution should make sure it has all information on the account including the date the student left school, the date the loan first became due, any deferments requested by the borrower and whether these were granted by the institution, the beginning and ending dates of any deferment periods, and the amount and dates of any payments made by the borrower (see "The Five-Year Rule," p. 98).

During the stay on collection activities, the institution may not withhold services such as providing transcripts and may not make any attempt to collect funds through wage garnishments or offsets from state income tax refunds. Once the bankruptcy procedures are completed, the institution may resume collection efforts on loans that are *not* discharged. The debtor no longer is liable for debts that have been discharged (Exhibit LEGAL-78).

Does the institution need to file a complaint to determine dischargeability? According to the Senate Committee on the Judiciary (S. Rep. No. 95-989), the section of the Bankruptcy Reform Act excepting educational loans from discharge "is intended to be self-executing and the lender or institution is not required to file a complaint to determine the nondischargeability of any student loan." (See Exhibit LEGAL-79 for a sample of a letter that may be sent to the bankruptcy court when notification is received (Chapter 7 only).)

Nevertheless, in a few cases, bankruptcy courts have decided a complaint or adversary action must be filed by the institution to determine whether a loan is automatically not discharged. Unless the practice of the court on this issue is known, this decision should be made on a case-by-case basis with the assistance of a lawyer knowledgeable in the practices of the judge hearing the case. If the borrower does file a complaint to determine whether he or she is entitled to a hardship discharge for a student loan, the lender will be notified of the action and, after a hearing and a trial on the issue, the court will decide the matter.

Many institutions recommend that, if possible, no action be taken that will alert the borrower to the fact that the educational loan will not be discharged in the bankruptcy proceedings along with the borrower's other debts. Once the majority of a borrower's debts are discharged, the borrower may decide that he or she is able to make payment on the educational loan even though this would not have seemed feasible to him or her while still overwhelmed by multiple debts.

The Five-Year Rule

Congress noted that a student may be several thousands of dollars in debt with no assets when leaving school and thus be technically eligible to declare bankruptcy. The five-year rule was passed to make sure sufficient time had elapsed to allow the borrower to become economically productive so that the bankruptcy court would have a more realistic view of the borrower's true ability to repay the loan.

The five-year period does not include any period during which the loan is not due, such as a deferment or grace period. In legal terms, such periods are said to "toll" the five-year period, that is, to interrupt the running of the five-year clock. The institution should keep accurate records of the beginning and ending dates of such periods. However, no deferment can be given unless requested by the borrower. Neither contract law principles nor federal regulations give either party the right to modify the loan contract without mutual agreement. If the institution gives a borrower a deferment without a request from the borrower, the deferment period cannot be included as part of the five-year period. The court may ask the institution for the borrower's request(s) for deferment so that the ending date of the five-year period can be determined.

As quoted earlier, the law states that the five-year clock begins when the loan first becomes due. This would be after any initial grace period to which the borrower is entitled. However, since most educational loans have a payment period of up to ten years, unless the loan has been accelerated, it is not clear whether a petition filed five years after an installment is due discharges only that portion due for five years or more, or discharges the entire loan, even the portion that has been due for less than five years.

Most courts have ruled that if any part of the loan has been due five years or more, the entire loan is dischargeable. One court, at least, has ruled otherwise. In *Johnson* v. *Graceland College* (17 B.R. 95, 98-99, Mo. 1981) the court ruled that in the case where a loan is paid in installments, the debt cannot be considered due and owing until the installment is due. The judge in this case discharged only that portion of the loan due five years or more from the date the bankruptcy petition was filed; the portion due and payable for less than five years was not discharged. (Exhibit LEGAL-80 presents a list of selected bankruptcy court cases and particular questions with which they are concerned.)

Undue Hardship Provision

The debtor must prove to the court that repayment of a student loan would cause undue hardship, in order for the loan to be discharged under the undue hardship provision. An educational loan usually is not discharged because of mere financial adversity, poor present employment situation, or because paying the loan will cause the borrower to have a tight budget. The measures used vary. In *Wegfehrt* v. *Ohio Student Loan Commission*, 10 B.R. 826, 830, Ohio 1981 the court tried to determine if the debtor's estimated future income would enable the debtor to make some payment on the educational loan without reducing the debtor's income to below the amount necessary to maintain a minimal standard of living for the debtor and his or her family.

Many courts use language in the 1973 "Report of the Commission on Bankruptcy Laws of the United States" as a guide to defining undue hardship. The Report states:

> In order to determine whether nondischargeability of the debt will impose an "undue hardship" on the debtor, the rate and amount of his future resources should be estimated reasonably in terms of ability to obtain, retain, and continue employment and the rate of pay that can be expected. Any unearned income or other wealth which the debtor can be expected to receive should also be taken into account. The total amount of income, its reliability, and the periodicity of its receipt should be adequate to maintain the debtor and his dependents at a minimal standard of living within their management capability, as well as to pay the educational debt.

Mechanical test. Courts often adopt the three-tiered test used originally in *Pennsylvania Higher Education Assistance Agency* v. *Johnson*, 5 B.C.D. 532, Bkrtcy, E.D. Pa. 1979. First, a "mechanical" test determines the borrower's employment status, educational level, health, skills, and the marketability of those skills. The court tries to determine whether the debtor's financial resources over the "longest foreseeable period of time allowed for loan repayment" will be sufficient to support the debtor and his or her dependents at a subsistence or poverty standard of living as well as cover repayment of the student loan. The court takes into account such factors as the borrower's responsibility for small

children and, especially, any health problems that could affect future employment.

Good faith test. If the loan would be discharged under the mechanical test, the second level "good faith" test is applied. The court asks two questions here:

1. Was the debtor negligent or irresponsible in his or her efforts to minimize expenses, maximize resources, or secure employment?
2. If yes, would the lack of such negligence or irresponsibility have altered any of the answers in the mechanical test?

If the answer to either question is no, the court probably will discharge the loan; if the answer to both is yes, the court proceeds to the third test.

Policy test. The last test, again, a double question, is called a "policy" test. First the court asks if the amount of the student loan and the percentage it represents of the borrower's total indebtedness on all debts indicate that the dominant purpose of the bankruptcy petition was to discharge the student debt. Second, the court determines whether the employment prospects of the borrower indicate that he or she definitely has benefited financially from the education that the loan helped to finance. A positive answer to either question suggests that discharge should be denied.

In sum, these three tests provide guidelines to the court for interpreting the Chapter 7 undue hardship provision. If the debtor's present and future resources appear to be sufficient both to support the debtor and his or her dependents at a subsistent standard of living and to allow repayment of the loan, the loan would not be discharged. If the resources appear insufficient to do this, the court might still refuse to discharge the loan if the debtor's circumstances were due to his or her extravagant use of funds or failure to seek employment. And, if the only apparent reason the debtor filed for bankruptcy was to discharge an educational loan from which the debtor benefited, and repayment of the loan would not unduly impoverish the debtor, the court would not discharge the loan.

A court may decide in some circumstances to discharge only part of an educational loan, for example, where the debtor could reduce some expenses but has an uncertain future income.

It is the responsibility of the borrower to initiate a court action (called an "adversary proceeding" under the Bankruptcy Code) in order to argue that the loan should be discharged under the undue hardship provision. A borrower initiates an adversary proceeding by serving a summons and complaint on the lending institution, alerting the lender to the court hearing and inviting the lender to file and serve an answer to the complaint. When a borrower does use this provision, the institution usually can determine fairly readily whether or not to ask legal counsel to argue against discharging the loan if the institution knows the borrower's financial circumstances. If the institution is uncertain about the borrower's present situation and future prospects, institutional legal counsel will need to determine whether it is reasonable to argue against discharging the loan. By means of deposition and written questions (interrogatories), counsel can seek information from the debtor regarding income, future prospects, attempts to repay the loan, and other relevant issues. When the loan is an NDSL and it appears that the borrower's circumstances will improve, the institution should inform the court that NDSL regulations specifically allow for a temporary hardship deferment and that the institution is willing to grant such a deferment to the borrower.

If the institution concludes that the debtor has not demonstrated undue hardship, the institution should answer the complaint by denying the allegations and, if it does not yet hold a judgment on the loan, should include in the answer a demand for judgment.

Discharge hearing. After the court has determined whether or not to grant a discharge, it holds a hearing to inform the debtor of its decision (11 U.S.C. section 524(d). Any agreement reached with a debtor to repay after bankruptcy an otherwise-dischargeable debt must be specifically affirmed by the debtor and approved by the court. If an institution made a demand for judgment in its answer to the debtor's complaint, as discussed earlier, or has brought its own complaint to have the debt determined to be nondischargeable, and now has reached a settlement with the debtor, that settlement must be approved at the discharge hearing.

Release of the Automatic Stay

The filing of a bankruptcy petition, as noted earlier, acts as an automatic stay, or mandatory suspension, of the seeking or enforcement of a judgment against the debtor, the setoff of any debt, or any act to collect, assess, or recover a claim against the debtor if the debt arose before the bankruptcy petition was filed (11 U.S.C. §362(a)). An institution may not resume collec-

tion efforts of any kind against the debtor until the bankruptcy proceedings are completed. (However, the stay in Chapter 7 does *not* bar collection efforts against a comaker or endorser.) Under the 1984 Bankruptcy Amendments, if a debtor can show that a creditor willfully violated the automatic stay, he or she can recover actual damages, including costs and attorneys' fees, and, in some cases, even punitive damages. If the loan is not discharged under Chapter 7, billing and collection can be resumed once the stay is lifted.

The automatic stay "continues until the earliest of:

(A) the time the case is closed;
(B) the time the case is dismissed; and
(C) if the case is a case under Chapter 7 of this title concerning an individual or a case under Chapters 9, 11, or 13 of this title, the time discharge is granted or denied." (11 U.S.C. section 362 (c)(2))

The institution should receive notice that the case has been dismissed or closed and dischargeable debts have been discharged. Until that time no attempt can be made to collect the loan. Under special circumstances, the institution can petition the court for a hearing to release the stay. A hearing will be held within 30 days of the request. However, the circumstances must meet certain legal grounds in the judgment of the court.

Exhibit LEGAL-78 is a sample notice of "Discharge of Debtor." It is *most important to read any discharge notice carefully.* Loan collection staff should not assume that such a notice discharges the loan. Close reading of the notice will disclose that the debtor is released only from all "dischargeable" debts. Since an educational loan that first became due and payable within five years of the bankruptcy filing is not considered dischargeable under Chapter 7, the debt is still in effect unless the court ruled it dischargeable under the undue hardship provision of the Bankruptcy Code.

If there is any question as to whether the automatic stay has been released, loan collection staff should consult legal counsel before resuming collection efforts.

If the loan is discharged, the debtor is freed from any obligation to repay and the institution may not attempt to collect from the borrower. The discharge does not affect the liability of a codebtor.

Chapter 13 Bankruptcy

Chapter 13 bankruptcy is designed to give relief to a person with a regular source of income but an intolerable debt burden. Congress hoped to encourage such a debtor to pay all or part of his or her debt by providing repayment flexibility.

To gain relief, a debtor files a petition for Chapter 13 bankruptcy. As in Chapter 7, this filing acts as a stay on all collection activities against the borrower, including the withholding of transcripts. Unlike Chapter 7, a Chapter 13 stay also operates to stop all collection activities against a cosigner on the loan unless the debtor proposes a plan that will not result in the debt's being paid. The institution must notify any billing or collection firm that has the borrower's account, and should make sure the borrower's repayment file at the institution is brought up to date, in accordance with the billing or collection firm's records.

Once a Chapter 13 petition is filed, the court appoints a trustee to advise the borrower and oversee repayment of debts. The borrower submits a proposed plan of repayment to the court. The plan must provide for repayment of all or part of each debt within three years, or, on approval of the court, a maximum of five years. The plan must be proposed in good faith.

It is important to note that, in order to participate in the repayment plan, an institution must file a proof of claim before the court, verifying the borrower's debt (Exhibit LEGAL-81). When notice is received that a borrower has filed for bankruptcy, institutional staff should check for other debts the borrower may owe the institution, such as library fines, bookstore charges, refunds due to other financial aid programs and so forth. Thus, when the institution files a proof of claim, all debts owed the institution will be listed.

After the debtor files a repayment plan, the court holds a confirmation hearing at which any creditor may object to the plan. It is advisable to file a written objection to the plan approximately one week before the confirmation hearing since this may facilitate settlement negotiations with the debtor's attorney. The 1984 Bankruptcy Amendments provide an additional compelling reason for filing an objection to a Chapter 13 plan that proposes to repay less than 100% of the student loan debts. Amended section 1325 of the Bankruptcy Code provides a powerful new weapon for unsecured creditors who object to

the confirmation of a plan. Its relevant provisions state:

"If . . . the holder of an allowed unsecured claim objects to the confirmation of the plan, then the court may not approve the plan unless, as of the effective date of the plan—

A. The value of the property to be distributed under the plan on account of such claim is not less under the amount of such claim; or
B. The plan provides that all the debtor's projected disposable income to be received in the three-year period beginning on the date that the first payment is due under the plan will be applied to make payments under the plan."

(Section 1325 (b)(1), as amended by section 317 of the Bankruptcy Amendments and Federal Judgeship Act of 1982.)

The 1984 Bankruptcy Amendments go on to define disposable income as "income which is received by the debtor and which is not reasonably necessary to be expended . . . for the maintenance or support of the debtor or a dependent of the debtor." Thus, by filing an objection, the unsecured creditor can now automatically insure that, at the very least, his or her claim will be paid to the extent that the debtor has disposable income. It is recommended that the creditor who has objected to a Chapter 13 proceeding set up a mechanism that will allow the institution to monitor the debtor's disposable income at least semiannually during the term of the plan.

Those with unsecured debts may object to the plan because they feel it was not proposed in good faith or because they would receive less under a Chapter 13 plan than they would have received if the debtor had filed for bankruptcy under Chapter 7. Section 1325 of the Bankruptcy Code provides that:

(a) "The court shall confirm a plan if

(3) The plan has been proposed in good faith and not by any means forbidden by law;
(4) The value, as of the effective date of the plan, of property to be distributed under the plan on account of each allowed unsecured claim is not less than the amount that would be paid on such claim if the estate of the debtor were liquidated under Chapter 7 of this title on such date; . . ."

Since language excluding educational loans from discharge was not included in this section, institutions with loans that would not be repaid satisfactorily under the proposed plan must object to the plan at the confirmation hearing if they wish to try to recover all or a substantial portion of the loans. The argument that the plan was not proposed in good faith often has been used successfully to challenge a debtor's repayment plan. The argument that the institution would receive less under Chapter 13 than under Chapter 7 has been successful only rarely.

Good Faith

Although nothing in the Bankruptcy Code sets a minimum that must be offered unsecured creditors, many courts have ruled that the debtor must make a meaningful effort to come to terms with his or her creditors and be fair in dealing with them. Debtors that propose zero or minimum payments on debts such as educational loans risk having their plans denied because they failed to attempt to pay a meaningful or substantial amount.

In interpreting the term "good faith" as it relates to educational loans, courts have tried to determine what Congress intended this term to mean. The majority have concluded that no rational legislative policy would exempt educational loans from discharge in straight bankruptcy under which almost all debts are discharged, but would permit debtors to avoid responsibility for these loans by paying only a token amount under Chapter 13 under which most debts are at least partially repaid. Therefore many courts are failing to confirm plans unless they would repay such loans in full or in substantial part.

Courts also are reluctant to accept a partial repayment plan when educational loans comprise the major portion of the borrower's debt. Courts interpret use of Chapter 13 under these circumstances as an attempt to discharge a debt that would be nondischargeable under Chapter 7. Plans that propose paying installments close to or greater than the scheduled payment, but for a shorter period of time, are likely to be denied since, once the debtor is paying that amount, it seems likely that he or she could continue until the entire loan is paid off. Similarly, the greater the income or assets of the borrower, the less likely it is that a court will confirm a plan that does not provide for substantial repayment.

Equivalent Payment to Chapter 7 Payment

As mentioned earlier, the Bankruptcy Code states that in a Chapter 13 bankruptcy the value of property to be distributed under the repayment plan on each allowed unsecured claim must not be less than the amount that would be paid on the claim under Chapter 7. Since educational loans are not dischargeable under Chapter 7, but must be paid in full, institutions have argued successfully that they should be fully repaid under a Chapter 13 plan unless the loan first became due more than five years before the bankruptcy petition was filed or repayment would cause undue hardship to the borrower. Courts in the majority of jurisdictions have rejected this argument, stating that it is irrelevant that the creditor might ultimately receive more money because the debt is nondischargeable. Whether the court is receptive to the equivalent payment argument varies with the court and the circuit.

Public Policy Issue

Finally, a plan that does not provide for substantial repayment may be denied because the court interprets the statute in light of a public policy that prevents perceived abuse and respects the uniqueness of higher education loans. Student loan programs are revolving; that is, as repayments come in, the funds are loaned out to another student. If a debtor fails to repay a student loan—a loan used to better the borrower's life through postsecondary education—fewer funds will be available for other needy students.

Objecting to the Repayment Plan

In a case where any of the above issues is relevant to a Chapter 13 proceeding, the institution should consider filing an objection to a payment plan if the plan does not provide full or substantial repayment of an educational loan. The institution should have the assistance of legal counsel in preparing for arguments. The court may not accept the objection unless it is filed by an attorney.

If the Debtor Does Not Complete the Payment Plan

Once the debtor has completed the three-to-five-year payment plan, the Bankruptcy Code, in section 1328(a), provides for the discharge of all debts except for alimony, child-support, and pre-existing long-term debts (secured or unsecured obligations on which the last payment is due after payments on the debtor's plan have been completed). The creditor may not resume collection activities on debts that have been discharged even if, after the payment plan has been completed, the debt is not fully repaid. However, if the debtor does not complete his or her repayment plan, the debts are not discharged and are still collectible. Before assuming that all or part of an educational loan has been discharged under Chapter 13 bankruptcy, institutions should make sure borrowers have completed their proposed payment plans. Creditors may request from the court a "Summary of the Trustee's Final Account" (Exhibit LEGAL-82), and the notice of "Discharge of Debtor" (Exhibit LEGAL-83), or similar documents used by the state.

Exceptions to Discharge: Chapter 7 and Chapter 13 Bankruptcies

Debts Obtained Under False Pretenses

Under the Bankruptcy Code, a discharge under Chapter 7 does not discharge the debtor from debts obtained under false pretenses, false representation, or actual fraud. Such circumstances also can be used to challenge the "good faith" of a Chapter 13 payment plan. However, the creditor must prove during bankruptcy proceedings that the debt was made under those circumstances (Section 523(a)(2)). Once the debt has been discharged, it is too late to make this claim. The creditor must file a complaint before the deadline that is given in the bankruptcy notice and is usually required to prove, among other things, that:

1. The debtor made the misrepresentation;
2. The debtor knew it was false at the time it was made;
3. The misrepresentation was made with the intent to deceive the creditor;
4. The creditor reasonably believed the misrepresentation; and
5. The loan was made as a result of the misrepresentation.

Institutions should review loan records once a borrower files a bankruptcy petition to make sure no part of the loan was made as a result of false pretenses. If it was, the institution should file a complaint with the court.

Some of the conditions that would be included under a definition of false pretenses, false representation, or fraud are:

1. A student fails to list previous NDSLs on his or her NDSL application and, consequently, receives a loan that causes the total amount of funds borrowed to exceed the amount that may be loaned to one student.
2. A student fails to notify the financial aid office of a change in his or her financial circumstances and, consequently, receives more aid than he or she is entitled to receive.
3. A student conceals income or assets from the institution and, consequently, receives more aid than he or she is entitled to receive.
4. A student changes his or her name in order to borrow more than can be borrowed by one individual.
5. The borrower falsely promises to use the loan funds for educational purposes.
6. The borrower knowingly writes a bad check in order to clear his or her financial record at the institution so that more money can be borrowed.

Failure to List Debts

The Bankruptcy Code does not discharge debts that the debtor has not listed in the bankruptcy petition. When notice is received that a bankruptcy petition has been filed, the institution may find it useful to request from the court the schedule of indebtedness filed by the debtor. Institutional personnel may verify that the institution's debt has been listed and, if the bankruptcy is dismissed, the information in the schedule may be useful in further collection efforts, especially when setting up a reasonable repayment schedule for the borrower.

The creditor must be given sufficient opportunity to file a proof of claim and, if the creditor desires, request that the court determine whether or not the debt is dischargeable (section 523(a)(3)). This means the creditor must be listed and listed in time for the creditor to meet the deadline for filing such documents. For example, one court ruled that a creditor who learned of the bankruptcy less than one week before the deadline to file a claim did not receive sufficient notice. The debtor made an error in the creditor's address and the notice was misdirected (In the *Matter of Robertson*, 13 B.R. 726, Va. 1981). However, if the notice is mailed in sufficient time to reach the creditor, failure of the post office to deliver the notice in time, or at all, will not prevent the debt from being discharged. Even if no notice is mailed, provided the creditor is duly listed on the schedule, the loan still may be discharged since the debtor is not penalized for another's mistake.

If an institution receives information or notice of the bankruptcy proceeding only after the proceeding has been terminated, the institution may wish to review the bankruptcy court file to determine whether the debt was listed and, if so, whether the address was sufficiently clear that a notice could have reached the institution. If not, the debt is not discharged. However, if the debtor challenges the institution's right to collect on the loan, the institution will be required to prove the debt was not listed in sufficient time to enable a notice to reach the institution. The loan also may be discharged if the creditor was not listed on the schedule, but knew of the bankruptcy in sufficient time to file an objection and chose not to file.

Withholding of Services

Often institutional personnel ask if they must provide services for defaulted students whose loans have been discharged in bankruptcy proceedings. Withholding such services includes denial of transcripts and registration privileges, and refusal to process new applications for student financial aid. The law formerly appeared to treat public and private institutions differently on this issue.

Court cases on withholding services have involved withholding academic transcripts. The Bankruptcy Code states in section 525 that a governmental unit may not deny, revoke, suspend, or refuse to renew a license, permit, charter, franchise, or other similar grant, or discriminate with respect to a person whose debt has been discharged. It also states in section 524 that a discharge in bankruptcy operates as an injunction against any act to collect, recover, or offset a debt discharged in bankruptcy. Courts have interpreted these provisions to mean that a public institution may not withhold transcripts to a former student whose loan has been discharged in bankruptcy. Relevant cases include *Handsome* v. *Rutgers University*, 445 F. Supp. 1362 (N.J., 1978); *Lee* v. *Board of Higher Education*, 1 B.R. 78 (N.Y., 1979); and *Ryan* v. *Ohio Edison Company*, 611 F.2d 1170 (Ohio, 6th cir. 1979).

Under the Bankruptcy Act before the 1978

Amendments, private institutions were allowed to withhold transcripts to former students whose loans were discharged in bankruptcy. The precedent case, decided by the Eighth Circuit Court of Appeals under the former Bankruptcy Act, was *Girardier* v. *Webster College*, 563 F.2d 1267 (8th Cir. 1977). A number of cases now have been tried under the Bankruptcy Reform Act of 1978 and it appears that this distinction between public and private institutions is disappearing and neither can withhold transcripts once a borrower's loan has been discharged. Institutions should consult legal counsel with expertise in bankruptcy law before finally denying a student a transcript under these circumstances.

Conclusion

Congress, in writing the bankruptcy law, attempted to preserve educational loans from being discharged quickly and automatically in a bankruptcy. And, while courts around the country vary in their interpretation of the bankruptcy law, many carefully take into account the intent of Congress in their decisions. With these two allies and some time and effort, institutions often can protect educational loans from being discharged in Chapter 7 or Chapter 13 bankruptcies, and thus keep open the possibility that these funds eventually may be returned to the institution's loan programs.

Appendix I: General Forms, Letters, and Other Documents

INITIAL INTERVIEW QUESTIONNAIRE (PERSONAL AND CONFIDENTIAL INFORMATION)

TYPE OF STUDENT LOAN
NDSL___/UT___/NSL___/HPL___

This form must be completed in its entirety and returned to the Office of the Bursar, before funds may be advanced on any loan. (PLEASE PRINT)

NAME:_____ Soc. Sec. No. _____

PERMANENT
ADDRESS: Street_____
_____

LOCAL
ADDRESS: Street_____
_____

City_____ City_____

STATE_____Zip_____ STATE_____Zip_____

Telephone No._____ Telephone No._____

BIRTH DATE:_____ DRIVER'S LICENSE
NUMBER AND STATE:_____

YOUR PART-TIME OR FULL TIME-Job: _____
(Company Name and Street Address)

College _____ Major_____
CLASS: Fresh.__ Soph.__ Jr.__ Sr.__ Grad.__ Exp. Graduation Date_____

PARENT OR GUARDIAN:_____ Telephone No._____

Complete Address_____

Employer's Name_____ Employer's Address_____

SPOUSE's NAME:_____ Spouse's Employment_____

Spouse's Parents:_____ Telephone No._____

Complete Address_____

GRANDPARENTS: _____
(First) (Initial) (Last)
Complete Address_____

BROTHERS AND SISTERS over 18 not living at home: (List current name of sisters, i.e. Mrs. James R. Brown)

Name_____ Address_____

Name_____ Address_____

PERSONAL REFERENCES: (Pastor, Former Teacher, Parent's Neighbor)

Name_____ Address_____

Name_____ Address_____

INSURANCE COMPANY OR AGENT:

Automobile_____ Address_____

Life_____ Address_____

CREDIT CARDS, CHARGE ACCOUNTS, AND OTHER LOANS: (use reverse side if necessary)_____

_____

NAME AND LOCATION OF BANK AT WHICH YOU HAVE AN ACCOUNT:_____

_____

HIGH SCHOOL:
Name_____ Address_____

Anticipated Sources of Funds for College Expenses (Please check all sources you expect to receive):
NDSL___ GSL___ HPL___ NSL___ FISL___ College Work Study___ Part-time Job___ Parents___Savings___ BEOG___ SEOG___ TSAC___Scholarships___Voc. Rehab.___ Veteran Benefits___Other (Specify)_____

THE ABOVE INFORMATION IS CORRECT AND COMPLETE, AND I HEREBY AUTHORIZE VERIFICATION AS REQUIRED BY THE UNIVERSITY.

_____ _____
Signature Date

APPROXIMATE MONTHLY PAYMENT CHART

This chart gives an idea of the monthly payment required to pay your student loan in 10 years. Interest is included in the payment.

LOAN SIZE	DEFENSE 3%	DIRECT 3%	4%	5%	6%	7%	9%
$ 1,178	$ 15	$ 30	$ 30	$ 30	$ 15	$ 15	$ 15
1,500	15	30	30	30	17	17	19
2,000	20	30	30	30	22	23	25
2,500	24	30	30	30	28	29	32
3,000	29	30	30	32	33	35	38
3,500	34	34	35	37	39	41	44
4,000	39	39	41	42	44	46	51
4,500	43	43	46	48	50	52	57
5,000	48	48	51	53	56	58	63
5,500	54	54	55	58	61	64	70
6,000	58	58	61	64	67	70	76
6,500	63	63	66	69	72	75	83
7,000	68	68	71	74	78	81	89
7,500	72	72	76	80	83	87	95
8,000	77	77	81	85	89	93	101
8,500	83	83	86	90	95	98	108
9,000	86	86	91	96	100	105	114
9,500	92	92	96	101	106	110	120
10,000	96	96	101	106	111	116	127
10,500	101	101	106	111	117	122	133
11,000	108	108	111	117	122	128	139
11,500	111	111	116	122	128	134	146
12,000	116	116	122	127	133	139	152
12,500	120	120	126	133	139	145	158
13,000	126	126	132	138	144	151	166
13,500	131	131	136	143	150	157	171
14,000	135	135	142	149	155	163	177
14,500	140	140	146	154	161	168	184
15,000	145	145	152	159	167	174	190
15,500	149	149	157	165	172	180	196

SAMPLE FORM

Student Loan Truth in Lending Statement
Given to Borrower When Funds Are Advanced

INSTITUTION

Account Number _____

Name of Borrower _____

Address _____

_____

Date _____

ANNUAL PERCENTAGE RATE	Amount Financed	
The cost of your credit as a yearly rate.	The amount of credit provided to you.	Late Charge: If a payment is late, you may be charged _____.
Prior to repayment _____ %	During repayment _____ %	$ _____	Prepayment: If you pay off early, you will not have to pay a penalty.
		See the promissory note for any additional information about nonpayment, default, and any required repayment in full before the scheduled date.

Itemization of the Amount Financed of $ _____

$ _____ Amount given to you directly.

$ _____ Amount paid to the institution on your behalf.

I have received a copy of this statement.

_____
Signature

FINAL TRUTH IN LENDING STATEMENT

INSTITUTION

Account Number _____ Date _____

Name of Borrower _____

Address _____

_____

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	Amount Financed	Total of Payments
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you or on your behalf.	The amount you will have paid if you make all payments as scheduled.
_____%	$_____	$_____	$_____

See the promissory note for any additional information about non-payment, default, and any required repayment in full before the scheduled date.

Your payment schedule will be:

Number of Payments	Amount of Payment	When Payments are Due
_____	_____	_____
_____	_____	_____
_____	_____	_____

Late Charge: If a payment is late, you may be charged _____.

Prepayment: If you pay off early, you will not have any penalty.

Itemization of the Amount Financed of $_____

$ _____ Amount given to you directly.

$ _____ Amount paid to the institution on your behalf.

I have received a copy of this statement.

_____
Signature

Exhibit GEN-5

Name _____ Student No. _____ Due Date _____
Last First MI

SHORT TERM STUDENT LOAN FUND PROMISSORY NOTE

This is a ☐ New Loan ☐ Renewal of Loan Issued _____ From Fund _____

$ _____ _____ 19____

APPLY $ _____ on ☐ Loan ☐ Student Receivables ☐ Other _____

The undersigned promises to pay _____ the sum of _____ Dollars on, or before _____

OR in principal installments as follows:

AMOUNT	DUE	AMOUNT	DUE
_____	_____	_____	_____
_____	_____	_____	_____

The FINANCE CHARGE will begin on _____ and will be at the ANNUAL PERCENTAGE RATE OF _____ (%) on the unpaid balance. This note is also subject to the rights, responsibilities and penalties as shown on the reverse side of this note. If this note is co-signed, all obligations of the undersigned will be joint and several. Loans are payable at the _____

My signature indicates I accept the terms as stated on the face and reverse side of this note.

Signature _____

Local Address _____
No Street City/St Zip

Home Address _____
No. Street

_____
City State Zip

CO-SIGNER (signature must be notarized)

Signature _____

Name _____

Address _____
No. Street

_____
City State Zip

Approved: Financial Aids:

_____

Approved: Controller's Office:

_____

Conditions:

State of _____ County of _____

Signed in my Presence This _____

day of _____ 19 _____

_____
Notary Public

Loan No. _____ **Fund No.** _____

(Please see reverse side)

RIGHTS

1. This loan may be paid anytime prior to the due date. Doing so would result in an interest savings.
2. If it can be justified, a loan may be renewed once for up to 60 additional days if the borrower is a currently enrolled student at _____
3. Appeals of denied loans may be made to the Appeal Committee in the Financial Aid Office by completing an appeal form.

RESPONSIBILITIES

1. It is the borrower's responsibility to keep the _____ formed of any name or address change.
2. It is the borrower's responsibility to contact the _____ if payment cannot be made on time.

PENALTIES

1. In the event of default, the total unpaid balance, including interest thereon, shall without notice to anyone, become due and payable immediately.
2. Past due loans will be placed on the registration, transcript, and diploma hold list.
3. Co-signers will be required if previous loans have been paid more than 30 days late and for all students under the age of 18.
4. Future requests for loans will be denied if this loan is paid more than 60 days late.
5. Loans which become 120 - 150 days past due will be referred to the Delinquent Receivables Office or to a collection agency, unless satisfactory arrangements have been agreed upon with the Loans Receivable Office. If referral is necessary, new loan consideration would require a one year waiting period after the payment in full of this loan and the reimbursement to the University of the the Collection Agency fee.

NOTE: _____ is a member of_____Credit Exchange and affilliated with Associated Credit Bureaus of America

Exhibit GEN-6

_____ _____

Student's Name Social Security Number

INSTITUTIONAL LOAN FUND

PROMISSORY NOTE

Loan Fund: _____

$_____ [City, State], _____, 19___

I,_____, promise to pay to the order of

[Sample Institution]

_____ dollars for value received, with interest at the rate of nine (9%) percent per annum from date of above named student's withdrawal or graduation from [Sample Institution], whichever is first. The above-named sum is negotiable and payable at the office of [Sample Institution, Address] in accordance with the following schedule:

_____payments in the amount of $_____ each, plus interest, beginning on the first day of the sixth month following the date of withdrawal or graduation, whichever is first, of the above-named student from [Sample Institution] in accordance with the attached schedule of repayment.

I promise to pay all attorney's fees and other collection costs and charges necessary for the collection of any amount not paid when due.

It is further agreed:

1. That the undersigned student assumes the responsibility for keeping the college informed concerning changes in name, address, and/or employment status.

2. That if the undersigned student, after graduation from [Sample Institution], continues his or her education in an accredited college or graduate school, the date for beginning payments on this note may be postponed until six (6) months following the termination of undergraduate or graduate study provided that such study proceeds continuously on a full-time basis.

In case the undersigned student continues post-graduate education, he or she assumes responsibility for obtaining verification of enrollment as a full-time student by appropriate officer of the institution which he or she is attending and the responsibility for transmitting this information in a timely manner to [Sample Institution].

3. In the event of a default in payment on any installment due on this note, the entire unpaid indebtedness, including interest accrued thereon, shall, at the option of the institution, become immediately due and payable.

Presentation, protest, and notice are hereby waived.

_____ _____

Student's Signature

_____

Permanent Address

Area Code ( ) _____

Telephone Number

_____

Witnessed by

_____

Title

Indicate below the name and address of three (3) persons who normally will know your correct address:

_____ _____

_____ _____

_____ _____

NAME:

ADDRESS:

TELEPHONE NUMBER:

Student Loan Ledger

(Handposted)

Interest Rate: 5%

Social Security No.

Billing Frequency:

Separation Date:

Loan Amount:

Date	Receipt and/or interest posting	Past due principal	Past due interest	Principal cancelled	Interest cancelled	#	%	Principal balance	Principal paid	Interest paid	Past due principal paid	Past due interest paid	Payment amount

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STUDENT LOAN JOURNAL

NDSL — NUMBER: 10 — OUT OF SCHOOL JOURNAL — PERIOD ENDING DATE: 01/04/83 — PAGE: 25

REVISION DATE: 9 DEC 82

BORROWER NAME / ACCOUNT NO	STATUS (1) / SUSP CODE (2)	TOTAL LOAN	PAYMENTS: PRINCIPAL PAID TO-DATE	PAYMENTS: INTEREST PAID TO-DATE	CANCELLATIONS: PRINCIPAL CANCELLED TO-DATE	CANCELLATIONS: INTEREST CANCELLED TO-DATE	CANCELLATIONS: INS (3)	CANCELLATIONS: COMP (3)	CANCELLATIONS: INT (3)	PRINCIPAL BALANCE	DEFERMENTS: PRINCIPAL DEFER TO-DATE	DEFERMENTS: COMP (10)	DUE: CURRENT DUE PRINCIPAL	DUE: PAST DUE PRINCIPAL	REPAY TYPE
ACCOUNT NO			PRINCIPAL PAID TO-DATE	INTEREST PAID TO-DATE	PRINCIPAL CANCELLED TO-DATE	INTEREST CANCELLED TO-DATE	INS (3)	COMP (3)	INT (3)		DEFERMENT DEFER TO-DATE	COMP (10)	CURRENT DUE INTEREST	PAST DUE INTEREST	REPAY PLAN
INTEREST DATE	SEPARATION DATE	SUSP (2) CODE	PRINCIPAL EXCESS PAID		CANCELLATION APPLIED DATE	CANCELLATION ENDING DATE	INS (3)		INS (3)		DEFERMENT APPLIED DATE		ACCRUED INTEREST	LAST NOTICE SENT (11)	DAYS PAST DUE
SSN (ID) NO	LAST ACTIVITY DATE	TYPE	LAST PAYMENT AMOUNT	LAST PAYMENT DATE	PRINCIPAL POSTPONED	INTEREST POSTPONED	POSTPONEMENT ENDING DATE			HOLD ON ACCOUNT	DEFERMENT ENDING DATE		NEXT PAYMENT DUE	INSTALLMENT AMOUNT	MONTHS PAST DUE
TITUS, PAUL W.															A
10-03-73725-1		10	500.00	231.80						268.20	393.75	S			1
3.000	08/09/87										08/01/77		4.02	BIL1	
000-00-0000	06/01/82	060	09/28/64	58.75	06/08/82						06/01/77		06/01/83	58.62	
CARTH, KAREN C.															O
10-03-73770-5		50	3,000.00	339.19	110.81					2,660.81					A
3.000	06/01/80													POS	
000-00-0000	10/01/82	050	03/01/80	90.00	06/29/82	140.08	39.92	06/01/83					03/01/83	90.00	
QUINCY, DAWN P.				28.26	66.74									318.60	A
10-03-73978-1		41	1,760.00	675.90	563.10					1,084.10	1,246.38	S			1
3.000	03/18/87	P		188.22							08/01/79		22.24	3RD	630
000-00-0000	12/21/82	PAY	03/30/64	30.00	12/21/82						04/01/79		04/01/83	206.33	21
QUINCY, DAWN P.				61.60	43.40								38.48	321.60	O
10-03-73978-2		41	1,471.00	954.18	454.60					516.72	1,085.72	S	4.18		1
3.000	03/18/87	P		225.00							08/01/79			PB	900
000-00-0000	12/21/82	PAY	06/28/66	40.00	12/21/82						06/01/79		01/01/83	42.70	30
QUINCY, DAWN P.				23.66	76.34									195.13	O
10-03-73978-5		41	925.00	23.66	76.34					901.34					1
3.000	06/01/79	P												PB	660
000-00-0000	12/21/82	PAY	03/01/79	30.00	12/21/82								03/01/83	26.85	22
CHARLES, LEWIS T.				185.93	8.12			5							A
10-03-74232-1		10	1,680.00	711.84	68.36	830.00	199.20	A5		118.16		S			1
3.000	08/25/68					09/01/78	09/01/78				01/01/73			BIL1	
000-00-0000	08/01/82	060	03/30/64	195.05	08/19/82						09/01/72		05/01/83	194.60	
PETERS, ED R.															A
10-03-74314-1		90	1,000.00	1,000.00	195.07					.00					1
3.000	12/12/87			80.05										3RD	
000-00-0000	07/01/82	005	02/10/65		01/22/79								12/01/79	117.50	
LOVE, BETTY L.															M
10-03-74492-1		90	830.00	830.00	178.85					.21					E
3.000	09/0[illegible]46	C		5.51										BILL	
000-00-0000	07/01/82	005	05/20/64		04/14/76								04/26/76	15.00	
OPEY, MARK A.				333.35	10.00										A
10-03-74655-1		90	2,923.00	2,923.00	511.40					.00					1
3.000	09/01/70												8.31	3RD	
000-00-0000	07/01/82	060	09/28/64		07/23/82								09/01/82	343.45	
BAKER, PHILIP R.															O
10-03-74687-5		00	6,975.00							6,975.00		C			1
3.000	09/01/79										06/01/82			STU	
000-00-0000	06/01/82	041	06/01/79								06/01/82		06/01/83	202.49	
NOVAK, ROSS															A
10-03-74767-1		10	1,325.00	1,028.71	216.81					296.29	937.46	S			1
3.000	06/12/68										05/01/74		4.44	BIL1	
000-00-0000	08/01/82	060	01/18/65	155.69	06/14/82						06/01/74		06/01/83	155.33	

(1) STATUS

00=GRACE PERIOD
01=GRACE AFTER DEFERMENT
10=CURRENT
40=PAST DUE-UNDER 75 DAYS
41=PAST DUE-COLLECTION AGENCY
42=PAST DUE-LITIGATION
43=PAST DUE-75 DAYS OR MORE
44=PAST DUE-SP. HANDLING
50=POSTPONED
70=IN SCHOOL
90=PAID-THIS YEAR
91=PAID-PRIOR YEAR

(2) SUSPENSE CODES

1-9=NON REMAINING SUSPENSE
ALPHA=CONTINUOUS SUSPENSE
B=DEATH
H=DISABILITY
U=UNCOLLECTABLE
X=BANKRUPTCY
Z=TO BE ASSIGNED
OTHER=COLLECTION AGENCIES

CANCELLATION COURSES

(3)-DEFENSE TEACHING 10%
NURS & HPL EMP 11/71 10%
(4)-DEFENSE TEACHING 15%
NURS & HPL EMP 11/1 15%
(5)-DEFENSE MILITARY 12 1/2%
(6)-DIRECT TEACHING
(15,15,20,20,30)
NURSING EMP 11/71-9/79
(15,15,15,20,20)
(7)-DIRECT HEADSTART 15%
(8)-DIRECT MILITARY 12 1/2%

(9) CANCELLATION CODES

A=DEFENSE TEACHING 10%
B=DEFENSE LOW INCOME 15%
C=DEFENSE HANDICAP 15%
D=DEATH 100%
E=DIRECT TEACHING INCR
F=DIRECT HEAD START 15%
H=DISABILITY 100%
M=MILITARY 12 1/2%
O=OTHER
X=BANKRUPTCY 100%
Z=ASSIGNMENT 100%
N=NURSING INCREASING
[illegible]

(10) DEFERMENT CODES

C=CONTINUING STUDENT
S=STUDENT
A=ARMED FORCES
P=PEACE CORPS
V=VISTA
T=TAX EXEMPT
D=TEMP DISABILITY
H=PUBLIC HEALTH SERVICES
I=INTERNSHIP
U=UNEMPLOYMENT
E=HARDSHIP/FORBEARANCE
O=OTHER

(11) LAST NOTICE SENT

BILL=REGULAR BILL
1st=1st PAST DUE
2nd=2nd PAST DUE
3rd=3rd PAST DUE-MAILGRAM
PB=PAST DUE W/CURRENT DUE
CAN=CANCELLATION
POS=POSTPONEMENT
DEF=DEFERMENT
STU=CONTINUING STUDENT
GRA=GRACE PERIOD
9=NOTICE SENT THIS PERIOD

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STUDENT LOAN JOURNAL

NDSL NUMBER 10 IN SCHOOL JOURNAL PERIOD ENDING DATE 06/01/83 PAGE 2

ACCOUNT NUMBER	STUDENT NAME	LOAN AMOUNT	PREPAID PRINCIPAL	DATE PAID	PRINCIPAL BALANCE	DATE LAST ADVANCE	ADVANCE AMOUNT YTD
10-11-1234-C	ABLE, RONALD W.	3,420.00			3,420.00	03/28/83	930.00
10-11-2345-5	BAKER, PHILIP R.	7,470.00	470.00	03/27/83	7,000.00	06/01/81	
10-11-3456-5	CHARLES, LEWIS P.	150.00			150.00	03/01/81	
10-11-4567-C	DARWIN, JANE	450.00			450.00	03/28/83	300.00
10-11-5678-C	EUBANKS, SUSAN N.	795.00			795.00	03/28/83	570.00
10-11-6789-B	FARLEY, PAUL T.	900.00			900.00	03/01/82	
10-11-7890-C	GARTH, KAREN	255.00			255.00	03/28/83	170.00
10-11-8901-5	HOGAN, RICHARD	375.00			375.00	03/01/80	
10-11-9012-A	IVY, MELISSA	580.00			580.00	06/01/81	
10-12-0123-5	JONES, JEFEREY	2,130.00			2,130.00	03/01/81	
10-11-4321-A	KETCHUM, GERRY	245.00			245.00	09/01/82	150.00
10-11-5432-5	LOVE, BETTY	650.00			650.00	09/01/82	150.00
10-12-3765-C	MACKIE, KAREN	585.00			585.00	03/01/81	
10-12-7245-B	NOVAK, ROSS	450.00			450.00	04/28/83	450.00
10-11-8372-5	OPEY, MARY A.	650.00			650.00	09/01/82	150.00
10-13-1234-B	PETERS, ED	270.00			270.00	03/01/81	
10-11-0764-C	QUINCY, DAWN	760.00			760.00	03/28/83	450.00
10-11-9893-5	RIDER, MARY	480.00			480.00	03/01/81	
10-10-1716-A	SAMUEL, ROBERT	390.00			390.00	03/28/83	260.00
10-11-2248-B	TITUS, PAUL	2,120.00			2,120.00	03/28/83	1,400.00
20		23,125.00	470.00		22,655.00		4,980.00

Exhibit GEN-9

BEST COPY AVAILABLE

CODES

ALPHA	COMBINATION	DEFINITION
		Loan Status Codes
G	00	First grace period
DG	01	Grace after deferment
C	10	Current
P	40	Past-due - under 75 days
CA	41	Past-due - collection agency
L	42	Past-due - litigation
DE	43	Past-due - 75 days or more
SH	44	Past-due - special handling
PP	50	Postponed
IS	70	In school
CP	90	Paid this year
PD	91	Paid prior year
		Deferment Codes
CS	C	Continuing student
S	S	Student
A	A	Armed Forces
PC	P	Peace Corps
V	V	Vista
T	T	Tax exempt
TD	D	Temporary disability
PH	H	Public health service
I	I	Internship
U	U	Unemployment
E	E	Extraordinary circumstance
O	O	Other
		Cancellation Codes
A1	A1	Defense teaching 10 percent
B1	B1	Defense low income 15 percent
C1	C1	Defense handicap 15 percent
D1	D1	Death
E1	E1	Direct teaching increasing
F1	F1	Direct Head Start 15 percent
H1	H1	Disability
M1	M1	Military
O1	O1	Other
X	X	Bankruptcy
Z	Z	Assignment
N	N	Nursing increasing
NS	NS	Nursing and HPL shortage 15 percent
NE	NE	Nursing and HPL employment 10 percent
		Miscellaneous Codes
B	B	Bad address

_____Defense

_____Direct

_____Other

REPAYMENT SCHEDULE

Name *(Mr.) (Mrs.) (Ms.)* _____
Last First Middle

Home Address _____
No. and Street Apt. # City State Zip Code

Phone Number (____) _____

The student loans which you received and which are checked above, together with an ANNUAL PERCENTAGE RATE of ____% on the unpaid balance, are repayable in accordance with this repayment schedule. With your leaving on _____, your FINANCE CHARGE will begin to accrue on _____.

The AMOUNT FINANCED $ _____, together with a FINANCE CHARGE OF $ _____ (the total amount of interest to be paid if payments are in accordance with this schedule), is to be cancelled or repaid in_____quarterly/monthly payments of $_____each. The total amount to be paid, including the AMOUNT FINANCED and the FINANCE CHARGE will be $_____. Your first payment will be due on _____ and will be followed by payments each quarter/month thereafter. Statements will be sent approximately twenty (20) days before each payment is due.

The AMOUNT FINANCED is repayable in accordance with this repayment schedule, and is subject to provisions relating to DELINQUENCY and DEFAULT CHARGES specified in your promissory note(s). These may include a penalty charge for late payment or submission of forms, and the possibility that the total unpaid balance, including interest due, shall become due and payable immediately. Collection agencies will be used on loans which become more than 75 days past due.

You may, at your option and without penalty, prepay all or any part of the principal plus the accrued interest at any time.

The brochure which is being provided at this time covers deferment and cancellation provisions of your loan. Please become familiar with the terms.

Notification of name or address changes must be made to the _____ Loan Receivables Division. Check should be payable to "_____" and mailed to:

_____
_____
_____
_____

_____ _____
Date Representative

I acknowledge receipt of an exact copy of this statement.

_____ _____
Date Signature of Borrower

_____ _____
Social Security Number Student Number

Exhibit GEN-12

NAME (PLEASE PRINT) _____ (LAST) _____ (FIRST) _____ (M.I.) Soc. Sec. No. ___ - ___ - ____

PERMANENT ADDRESS _____ (STREET, P.O. BOX, ETC.) _____ (CITY) _____ (STATE) _____ (ZIP CODE)

NATIONAL (DEFENSE) DIRECT STUDENT LOAN
SCHEDULE OF REPAYMENTS

LOAN NO.	TOTAL BORROWED	NO. OF PAYMENTS	REGULAR PAYMENT	FINAL PAYMENT	ANNUAL PERCENTAGE RATE	TOTAL TO BE REPAID	FINANCE CHARGE	FINANCE CHARGE WILL BEGIN	DATE OF FIRST QUARTERLY PAYMENT
TOTAL									

The National Direct Student Loan(s) which you borrowed from _____ University and the Federal Government together with interest to accrue on the unpaid balance at the ANNUAL PERCENTAGE RATE(s) specified above, is repayable in accordance with this schedule.

You may prepay all or any part of your N.D.S.L. plus the accrued interest at any time without penalty. You are also subject to provisions relating to default and responsible for all reasonable costs and charges for collection of any amount not paid when due.

By signing below I warrant that I understand the above schedule and have received an exact copy thereof.

SIGNATURE _____ DATE _____

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CONSTANT MULTIPLIER CHART

Annual Rate	Payment Frequency	Payments Per Year	Total Payments	Constant Multiplier
3%	Monthly	12	120	0.0096562
3%	Bi-Monthly	6	60	0.0193329
3%	Quarterly	4	40	0.0290302
4%	Monthly	12	120	0.0101245
4%	Bi-monthly	6	60	0.0202764
4%	Quarterly	4	40	0.0304556
5%	Monthly	12	120	0.0106065
5%	Bi-Monthly	6	60	0.0212470
5%	Quarterly	4	40	0.0319214
6%	Monthly	12	120	0.0111021
6%	Bi-Monthly	6	60	0.0222445
6%	Quarterly	4	40	0.0334271
7%	Monthly	12	120	0.0116108
7%	Bi-Monthly	6	60	0.0232682
7%	Quarterly	4	40	0.0349721
9%	Monthly	12	120	0.0126676
9%	Bi-Monthly	6	60	0.0253934
9%	Quarterly	4	40	0.0381774

An example for using the chart would be a borrower with a loan at three percent in the amount of $4,500. The quarterly payment would be calculated by multiplying $4,500 by .0290302. The result would be 40 quarterly payments of $130.64.

If a borrower has loans at different rates or with different terms, the same method can be used as long as the repayment period is 10 years. Remember, if the total monthly payment is equal to or greater than $30, then all of the loans must have 10-year repayment periods.

For example, if a borrower has loans of $2,000 at three percent, $1,500 at four percent, and $500 at five percent, all loans would total $4,000. The repayment period would be 10 years and monthly payments would be calculated as follows:

3 percent =	$2,000 X .0096562 =	$19.31
4 percent =	$1,500 X .0101245 =	$15.19
5 percent =	$ 500 X .0106065 =	$ 5.30
	$4,000	$39.80

Statement of Account
(Computerized)

↓ SEND ALL CORRESPONDENCE AND FORMS TO ↓

THIS STATEMENT REFLECTS ACTIVITY THROUGH	AMOUNT DUE
09/01/83	30.00

10-05-. .53-5
ACCOUNT NUMBER

↓ MAKE CHECK PAYABLE TO ↓

SEND TO

- DO NOT SEND CASH
- WRITE YOUR ACCOUNT NUMBER ON YOUR CHECK
- PLEASE INDICATE NAME OR ADDRESS CORRECTION BELOW

DATE PAID	AMOUNT PAID

BILL.2

TO ENSURE PROPER CREDIT, PLEASE RETURN TOP PORTION OF STATEMENT WITH YOUR REMITTANCE
KEEP BOTTOM PORTION FOR YOUR RECORDS

NAME	ACCOUNT NUMBER	THIS STATEMENT REFLECTS ACTIVITY THROUGH
	10-05- 353-5	09/01/83

PRIOR ACTIVITY	PRINCIPAL	FINANCE CHARGE (INTEREST)	DEPOSIT DATE
LAST PAYMENT	51.65	8.35	08/30/83
TOTAL PAID	888.97	518.59	
TOTAL CANCELLED	.00		

LOAN AMOUNT	PRINCIPAL PAID OR CANCEL	PRINCIPAL BALANCE
2,490.00 -	888.97 =	1,601.03

AMOUNT DUE	PRINCIPAL	FINANCE CHARGE (INTEREST)
CURRENT DUE	26.00	4.00
PAST DUE	.00	.00
TOTALS	26.00	4.00

FREQUENCY OF BILLING	DUE DATE	PAY THIS AMOUNT
MONTHLY	09/26/83	30.00

ANNUAL PERCENTAGE RATE IS 3.000%

TO PAY YOUR LOAN IN FULL, REMIT THIS AMOUNT WITHIN 20 DAYS OF THE ACTIVITY THROUGH DATE → 1,605.03

PROMPT PAYMENT WILL ESTABLISH A GOOD CREDIT RECORD. PAST DUE AMOUNTS WILL CAUSE A REGISTRATION AND TRANSCRIPT HOLD.

NOTE: ON TIME PAYMENT OF THIS BILL WILL HELP YOU ESTABLISH A GOOD CREDIT RECORD. WE APPRECIATE YOUR PROMPT RESPONSE. THANK YOU.

IF YOU HAVE QUESTIONS REGARDING THIS ACCOUNT PLEASE WRITE TO THE ADDRESS LISTED ABOVE OR CALL: AT ( )( )

NATIONAL DIRECT STUDENT LOAN STATEMENT

(Handposted)

Date _____

To: _____

Payment Due Date: _____

Balance on Account: $ _____

Payment:

Current Principal: _____

Past Due Principal: _____

Current Interest: _____

Past Due Interest: _____

Total Payment Due: $ _____

Make Checks Payable to **NDSL**

_____

Student Loan Officer

To Apply for a Deferment: (1) Request the necessary forms from the Student Loan Office. (2) Complete the deferment request forms, have them certified by the proper official and return them to the Student Loan Office in a timely manner.

TELEPHONE: (304) 636-1900, Ext. 280

Sample 15-Day Past-Due Notice

Records in our office indicate that payment on your student loan is past due. Please let us know if there is any reason why payments should be deferred, cancelled, or postponed.

Your application for a loan was approved by the institution with the understanding that it would be repaid when due. We believe that your loan met an urgent financial need and permitted you to continue your college education; now we depend on your repayment to help finance loans to other students in need.

We urge you to either pay the amount currently due, which is _____, or contact this office to let us know why payment cannot or shall not be made. If payment has already been made, please accept our thanks.

Sincerely,

(Name)
Loan Collector

Exhibit GEN-17

Sample 30-45 Day Letter

Dear _____:

It's a common trait to put things off until one gets some free time. Perhaps this has happened to you. Recently we asked you to look into the overdue payment of _____, but as yet we have not heard from you.

It is imperative that you notify this office if your monthly payments will be late. The institution is willing to work with borrowers during the repayment period, but we must have your cooperation in order to do so.

We will expect to hear from you before the end of this month. If you have any questions about your student loan, please contact this office.

Sincerely,

(Name)
Loan Collector

Message Service Notice

05727783 MISTAT MI 001 YZ0577 TIME 115421 N

*** BUSINESS REPLY *** FIRST CLASS PERMIT NO. ____

_____
_____
_____

IMPORTANT ACTION REQUIRED

THIRD REQUEST TO BRING YOUR LOAN CURRENT $155.00 DUE ON LOAN ACCOUNT NUMBER 10- MUST HAVE CHECK BEFORE THE 14TH OF THIS MONTH TO STOP FURTHER ACTION DO NOT LOSE THE CHANCE TO DEAL DIRECTLY AND PRIVATELY WITH _____

MAKE YOR CHECK PAYABLE TO _____ AND SEND IT TODAY IN THE ENCLOSED ENVELOPE

LOANS RECEIVABLE DIVISION

NATIONAL DEFENSE/DIRECT LOANS ( )
(ACCOUNT NUMBERS BEGINNING WITH 10 AND 15)

NURSING AND HEALTH PROFESSIONS ( )
(ACCOUNT NUMBERS BEGINNING WITH 20 THROUGH 80)

GUARANTEED STUDENT LOANS ( )
(ACCOUNT NUMBERS BEGINNING WITH 90)

Sample 60-75 Day Letter

Dear _____:

Each and every day that you withhold payment on your over-due loan account, you are taking a chance on injuring your credit and the good reputation that goes along with it.

As people pay, so they are rated - by banks, by mortgage companies, by finance companies, and by credit agencies.

In justice to yourself and your future, send us your check for $180.00 today and protect your credit.

Sincerely,

Final Demand Letter

Dear_____:

The National Defense Student Loan Act allows the university to refer accounts to collection agencies if they become 75 days or more past due. Failure to do so could result in the loss of the loan program for failure to use "due diligence."

It is with regret that I find it necessary to use this action on your account. However, our records show your account has reached at least 75 days past due, and that action has not been taken which would bring your loan current.

Therefore, if payment of $180.00 is not received, or if arrangements are not made with us within 30 days from the date of this letter, your account will be referred for collection. This could result in the total unpaid balance being due immediately, as agreed to when you signed your note.

A self-addressed envelope has been provided for your use in sending your check. Please do not delay! Send your check today!

Sincerely,

Alternate Final Demand Letter

Dear _____:

We are again compelled to write to you concerning your past-due loan in the amount of $180.00. We pointed out the seriousness of this account in our last letter, and indicated more drastic action if payment wasn't forthcoming.

Since we received neither a payment nor a letter explaining the reason for non-payment, we are now serving notice that unless we receive payment by June 1st, we will place your account in the hands of our collection agency. We regret to have to take this step, but have no alternative. We will also accelerate the due date of the remainder of your loan, making the remaining outstanding balance plus interest immediately due and payable.

This action will, of course, affect your credit reputation. We, therefore, again request that you consider the matter and forward your payment by return mail.

Sincerely,

STATEMENT OF FINANCIAL CONDITION FORM

Name_____ Account Number_____
(First) (M. I.) (Last)

I request a hardship deferment on my _____(Type)_____ Student Loan. I understand that all information and supporting documents given will be held in strictest confidence and will not be subject to dissemination outside the requirements of _____(name of institution)_____. I also understand that, if granted, this hardship deferment is for no more than six months duration. I understand that interest continues to accrue during hardship deferment.

1. Social Security No._____
2. Date of Birth_____
3. Date continuous unemployment began_____ Mo./Yr.
4. Status:
   _____Single _____Widow(er)
   _____Married _____Separated or Divorced
5. Check and complete one of the items below:
   _____I have never been employed
   _____I have received the maximum allowable unemployment benefits
   _____I did not work long enough to be eligible for unemployment benefits
   _____I am receiving weekly unemployment benefits of $_____
6. Dependents:

Relationship	Age

7. I am receiving monthly public assistance in the amount of $_____
8. My monthly expenses are:
   Rent or Mortgage $_____
   (Cross out one)
   Utilities _____
   Food _____
   Car _____
   Other _____
   Total $_____
9. My savings account balance is $_____
10. My checking account balance is $_____
11. Spouse's net monthly income $_____
12. If single and living with parents, parents combined net monthly income $_____
13. If separated or divorced, monthly support income $_____
14. I am a widow(er) and am receiving $_____ a month from my spouse's estate, social security, veterans benefits, etc.
15. Total other income $_____ (Itemize on back of form)

I have other outstanding liabilities totaling $_____ not listed above. (Please itemize these on the back of this form)

Please use the back of this form in conveying any circumstances that you feel would have a bearing on your request for hardship deferment not covered above.

I CERTIFY THAT ALL STATEMENTS MADE ABOVE ARE TRUE AND CORRECT. I ALSO CERTIFY THAT I WILL IMMEDIATELY NOTIFY YOUR OFFICE OF ANY CHANGE IN MY EMPLOYMENT STATUS OR SIGNIFICANT CHANGE IN MY FINANCIAL PICTURE.

_____ _____
Signature Date

RETURN FORM TO:

BEST COPY AVAILABLE

Exhibit GEN-23

Hardship Deferment Cover Letter

Dear _____:

In reply to your request for a hardship deferment, we are enclosing a Statement of Financial Condition Form. This form needs to be completed in full and returned at your earliest convenience. Consideration will be given to your request when we have the completed form.

Any information furnished will be held in strict confidence, and is for our use in determining your eligibility for hardship deferment only.

Sincerely,

Hardship Deferment Response Letter

Dear _____:

Your request for a hardship deferment has been received and the following determination has been made:

_____1. FULL HARDSHIP DEFERMENT IS GRANTED THROUGH _____.
Month/Year

Interest will continue to accrue during this deferment period. Any change in your employment status or in your financial condition must be reported to this office.

_____2. PARTIAL HARDSHIP DEFERMENT IS GRANTED THROUGH _____.
Month/Year

In reviewing your current financial situation, as indicated in your request, it has been determined that you should be able to pay $_____ per month until such time as your financial condition improves. Interest is continuing to accrue during this partial deferment.

_____3. YOUR REQUEST FOR HARDSHIP DEFERMENT IS DENIED.

A review of your current financial condition shows that you should be able to continue making your regular payments without creating any undue hardship. You now have $_____ due on your account, which must be received in this office within 15 days.

Sincerely,

COLLECTION CONTRACT

The contract made this _____ day of _____, 19___ by and between (Name of Agency), hereinafter called the Agency, and (Name of Institution), hereinafter called the College.

1. Agency will use its best efforts to effect collections of accounts referred to it by College in accordance with governing guidelines.

2. Agency will remit to College monthly statements of the net amount received, by the 15th day of the month, on all funds collected by it during the preceding month.

3. Agency shall charge a commission of thirty-three and one-third percent (33 1/3%) of all amounts collected during the term of this contract on all accounts assigned, including any accounts turned over by Agency to Agency's Attorney for legal action. College will not pay court costs, or attorney's fees, or charges over and above the 33 1/3 percent commission.

4. Agency will maintain company records as they pertain to said account, in such a manner as to be auditable by College during normal business hours.

5. Agency will make no charge for teacher cancellations, military cancellations, deferments, or postponements.

6. Agency shall not institute legal proceedings, in the name of the College, without the expressed written authorization of College.

7. Agency shall return to College, without charge, any account placed in error.

8. Agency, upon collection in full of amount due (placed), shall return the account to the College for its continued billing of future installments.

9. Agency agrees to take commission on only the past-due amount in the event that payment is made in an amount more than what is, at the time of payment, past due. If the contract contains an acceleration clause, then commission is based on total amount paid.

10. College shall report all payments, at the time of receipt, to Agency if such payments are received by College while the account is assigned to Agency.

11. College shall be protected by Agency $10,000.00 Catastrophe Liability Policy against failure of Agency to reimburse College monies collected and due College.

12. The contract may be terminated at the option of either party by written notice given at least thirty (30) days prior to the date of termination.

I N W I T N E S S W H E R E O F, the parties have executed this contract in duplicate, on the date written above.

By _____ By _____

Title _____ Title _____

College _____ Agency _____

Exhibit GEN-26

COLLECTION AGENCY

Date Analysis Report

Month	Placements No.	Placements Amount	Collections Month	Collections To Date	Comm. Amount	Closed Accounts No.	Closed Accounts Amount	Active Accounts No.	Active Accounts Amount	PIF	Recovery Percent Gross	Recovery Percent PIF
Prior	2,849	1,669,016.81	6,270.44	598,068.21	165,854.37	2,124	1,033,632.38	112	37,316.22	613	35.83	21.52
9-82	18	15,459.26		475.00	142.50	11	12,555.13	6	2,429.13	1	3.07	5.56
10-82	7	1,500.51		884.88	265.46	5	615.63			2	58.97	28.57
11-82	67	20,616.89	475.00	6,193.73	1,858.13	25	6,160.06	27	8,263.10	15	30.04	22.39
12-82												
1-83												
2-83	126	37,486.44	689.32	8,967.14	2,690.18	15	3,944.38	88	24,574.92	23	23.92	18.25
3-83												
4-83	64	16,272.05	566.58	3,398.26	1,019.48	2	230.76	56	12,643.03	6	20.88	9.38
5-83												
6-83	20	7,989.33		150.00	45.00			20	7,839.33		1.88	
7-83	75	18,515.63	2,101.01	2,101.01	630.31			70	16,414.62	5	11.35	6.67
8-83	19	4,761.30						19	4,761.30			
	3,245	1,791,618.22	10,102.35	620,238.23	172,505.43	2,182	1,057,138.34	398	114,241.65	665	34.62	20.49

COLLECTION AGENCIES

Quarter Ending
June 30, 1983

	AGENCY 1	AGENCY 2	AGENCY 3	AGENCY 4	AGENCY 5**	TOTALS
Balance 3/31/83	$459,132.08	$228,936.49	$326,458.38	$30,077.07	$1,312,330.38	$2,356,934.40
Add: New Accounts	32,737.87	14,390.19	23,448.30	11,851.34	184,330.09	266,757.79
Add On*	34,980.87	47,082.72	39,235.75	4,134.93	17,895.62	143,329.89
At Agency During Quarter	$526,850.82	$290,409.40	$389,142.43	$46,063.34	$1,514,556.09	$2,767,022.08
Subtract:						
Collections:						
By Money	(33,100.33)	(19,264.23)	(25,215.58)	(7,525.05)	(27,983.36)	(113,088.60)
By Forms	(1,500.71)	(2,175.27)	(3,484.33)	(1,928.67)	(19,390.32)	(28,479.30)
Returns	(30,077.12)	(48,851.99)	(26,174.91)	(12,461.81)	(113,527.66)	(231,093.49)
Balance 6/30/83	$462,172.61	$220,117.91	$334,267.61	$24,147.81	$1,353,654.75	$2,394,360.69
Collection Percent	6.6%	7.4%	7.4%	20.5%	3.1%	5.1%

* Add on represents additional amounts added for collection on accounts already at agency.
** Second placements only.

Exhibit GEN-28

COLLECTION AGENCY SUMMARY

For Fiscal Year Ending
June 30, 1983

	AGENCY 1	AGENCY 2	AGENCY 3	AGENCY 4	AGENCY 5**	TOTALS
Balance July 1, 1982	$471,068.64	$318,147.13	$284,235.10	$12,736.51	$1,968,918.96	$3,055,106.34
Add:						
New Accounts	97,349.75	40,791.46	96,354.82	46,210.95	661,258.78	941,965.76
Add On*	90,305.63	102,969.85	124,087.39	12,292.51	73,070.42	402,725.80
At Agency During the Year	$658,724.02	$461,908.44	$504,677.31	$71,239.97	$2,703,248.16	$4,399,797.90
Subtract:						
Collections						
By Payment of Money	(112,375.00)	(70,565.40)	(82,383.22)	(15,900.19)	(105,249.92)	(386,473.73)
By Cancellation or Deferment	(7,037.11)	(9,203.75)	(11,988.48)	(3,457.85)	(46,796.96)	(78,574.15)
Returns	(77,139.30)	(161,931.38)	(76,038.00)	(27,734.12)	(1,197,546.53)	(1,540,389.33)
Balance June 30, 1983	$462,172.61	$220,117.91	$334,267.61	$24,147.81	$1,353,654.75	$2,394,360.69
Collection Percent	18.1%	17.3%	18.7%	27.2%	5.6%	10.6%

* Add on represents additional amounts added for collection on accounts already at agencies.
** Second placements only.

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COLLECTION AGENCIES

3-Year Summary

AGENCY	PLACEMENTS YEAR	PLACEMENTS CUMULATIVE	COLLECTIONS YEAR	COLLECTIONS CUMULATIVE	%	RETURNS CUMULATIVE	%	STILL AT AGENCY	%
1									
1980-81	$ 261,685.63	$ 2,610,780.77	$169,760.56	$ 926,480.39	35.5%	$1,000,376.02	38.2%	$ 683,924.36	26.2%
1981-82	182,382.28	2,793,163.05	136,350.61	1,062,831.00	38.1%	1,259,263.41	45.1%	471,068.64	16.9%
1982-83	187,655.38	2,980,818.43	119,412.11	1,182,243.11	39.7%	1,336,402.71	44.8%	462,172.61	15.5%
2									
1980-81	195,965.64	2,382,366.50	97,424.27	705,344.89	29.6%	1,052,648.09	44.1%	624,373.52	26.2%
1981-82	220,589.22	2,602,955.72	96,959.88	802,304.77	30.8%	1,482,503.82	57.0%	318,147.13	12.2%
1982-83	143,761.31	2,746,717.03	79,859.15	882,163.92	32.1%	1,644,435.20	59.9%	220,117.91	8.0%
3									
1980-81	223,768.04	2,591,242.64	92,108.82	857,885.07	33.1%	1,424,783.81	55.0%	308,573.76	11.9%
1981-82	188,560.92	2,779,803.56	95,209.80	953,094.87	34.3%	1,542,473.59	55.5%	284,235.10	10.2%
1982-83	220,442.21	3,000,245.77	94,371.70	1,047,466.57	34.9%	1,618,511.59	53.9%	334,267.61	11.2%
4									
1980-81									
1981-82	16,014.27	16,014.27	1,183.00	1,183.00	7.4%	2,094.76	13.1%	12,736.51	79.5%
1982-83	58,503.46	74,517.73	19,358.04	20,541.04	27.6%	29,828.88	40.0%	24,147.81	32.4%
5									
1980-81	649,176.68	1,698,455.48	90,544.29	140,945.03	8.3%	608,501.29	35.8%	949,009.16	55.9%
1981-82	1,432,745.34	3,131,200.82	171,830.43	312,775.46	10.0%	849,506.40	27.1%	1,968,918.96	62.9%
1982-83	734,329.20	3,865,530.02	152,046.88	464,822.34	12.0%	2,047,052.93	53.0%	1,353,654.75	35.0%
All Agencies									
1980-81	1,330,595.99	9,382,845.39	449,837.94	2,630,655.38	29.0%	4,086,309.21	43.6%	2,565,880.80	27.4%
1981-82	2,040,292.03	11,323,137.42	501,533.72	3,132,189.10	27.7%	5,135,842.18	45.4%	3,055,106.34	26.9%
1982-83	1,344,691.56	12,667,828.98	465,047.88	3,597,236.98	28.4%	6,676,231.51	52.7%	2,394,360.69	18.9%
First Placement									
1980-81	682,862.11								
1981-82	608,989.49								
1982-83	611,805.16								

Agency-5 is second placements only

Sample Letter Canvassing Borrowers About Collection Agencies

According to our records, your student loan account is being serviced by a collection agency.

This institution is performing an audit of collection agencies to evaluate their accuracy and effectiveness. Please review your records to confirm the following information, answer the questions, and provide any other pertinent information. The back of this page may also be used for additional information.

Total amount due $_____

Total amount paid _____

Amount of most recent payment _____

Date of most recent payment _____

Sign here if you agree with the above information_____

Have you been contacted by a collection agency?_____

If so, state name of individual and agency_____

_____

How were you treated?_____

What payment agreement did you make with the agency?_____

What was the total amount you paid the collection agency?_____

If a discrepancy exists, or should you have comments regarding the collection agency, please provide as much specific information as possible, including payment dates and copies of cancelled checks. Return this letter in the enclosed envelope as soon as possible.

Yours very truly,

Business Manager for Financial Aids

Collection Section Letters

Dear _____:

Your student loan account number,_____, has been transferred to this section for collection. It will therefore be necessary for us to place your name on our default list and assign the account to a collector.

Because this action is likely to affect your credit standing, we are giving you one more chance to pay the $284.50 which is due. This amount includes the late charge.

Your immediate attention is of utmost importance. Payment must be made within 48 hours if further action is to be avoided.

Sincerely,

Dear _____:

During your time in school, we loaned you $1,500 in student loans. These loans called for repayment in 52 monthly installments of $30.00 each. You are now past due in the amount of $270.00.

When these loans were made, you were informed during the pre-loan counseling that we are a member of the local credit bureau. We are about ready to report to the credit bureau the status of your account and your apparent lack of concern and cooperation.

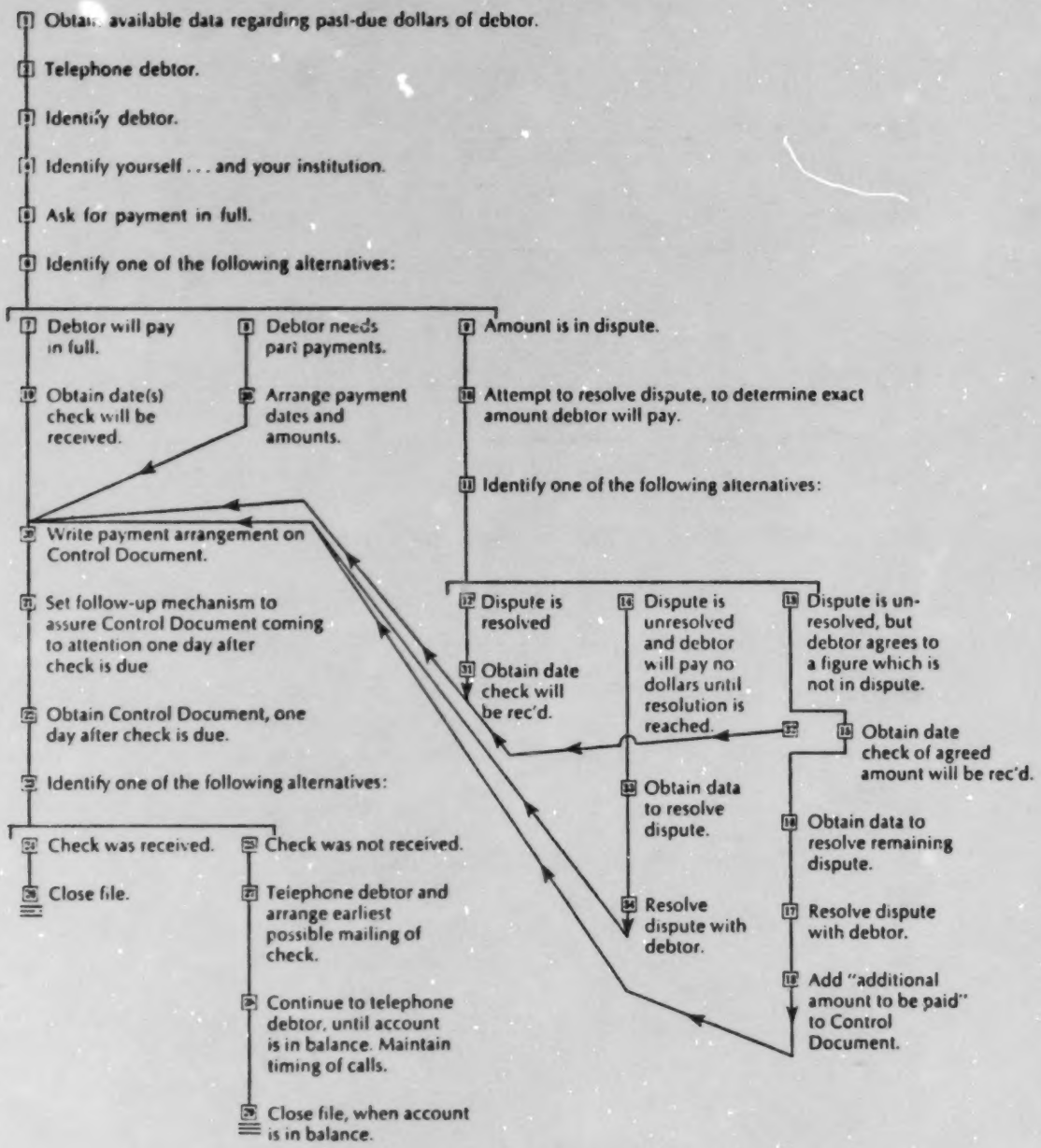
Please consider the fact that sometime in the future you may need credit again for such things as auto loans or a mortgage. The indifference which you seem to display toward these loans may cause other credit grantors to deny you consideration. This could cause embarrassment and be costly.

A report will be sent to the credit bureau on July 25th. Your response or lack of response to this letter will determine the content of that report.

Please use the enclosed envelope to send us the $270.00 now due.

Sincerely,

Collection Flow Chart


1 Obtain available data regarding past-due dollars of debtor.
2 Telephone debtor.
3 Identify debtor.
4 Identify yourself . . . and your institution.
5 Ask for payment in full.
6 Identify one of the following alternatives:
7 Debtor will pay in full.
8 Debtor needs part payments.
9 Amount is in dispute.
10 Obtain date(s) check will be received.
20 Arrange payment dates and amounts.
18 Attempt to resolve dispute, to determine exact amount debtor will pay.
11 Identify one of the following alternatives:
21 Write payment arrangement on Control Document.
22 Set follow-up mechanism to assure Control Document coming to attention one day after check is due
23 Obtain Control Document, one day after check is due.
24 Identify one of the following alternatives:
12 Dispute is resolved
14 Dispute is unresolved and debtor will pay no dollars until resolution is reached.
13 Dispute is unresolved, but debtor agrees to a figure which is not in dispute.
31 Obtain date check will be rec'd.
32 Obtain date check of agreed amount will be rec'd.
33 Obtain data to resolve dispute.
16 Obtain data to resolve remaining dispute.
34 Resolve dispute with debtor.
17 Resolve dispute with debtor.
25 Check was received.
26 Close file.
27 Check was not received.
28 Telephone debtor and arrange earliest possible mailing of check.
29 Continue to telephone debtor, until account is in balance. Maintain timing of calls.
30 Close file, when account is in balance.
15 Add "additional amount to be paid" to Control Document.

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Sample Letter on Seeking Information About Lost Borrower

[Name and Address]_____

_____

_____

RE:_____

_____

We have lost contact with the above person and must correspond with this student in order to update records. While the student attended this university your name was given as a personal reference.

Please note the correct address below or any information you may have and return it to us via the enclosed envelope.

Thank you for any assistance you can give us.

Very truly yours,

Receivables Supervisor
Office of the Controller

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Borrower Account-Tracing Check Sheet

Date _____

Borrower's Full Name _____

Last Known Temporary Address _____

Last Known Permanent Address _____

	Date items checked or rechecked	
A. *Office:* Start on first indication that communications fail to reach borrower.		
1. Was returned mail correctly addressed? (yes) (no)	____	____
2. Check borrower's address with loan application, exit interview form, and previous correspondence.	____	____
3. Did the Post Office furnish a new address? Any information? (yes) (no)	____	____
4. Try telephone number. If new number is furnished, ask Telephone Company Locator Service to give address.	____	____
a. Ask Telephone Company Information for number.	____	____
b. Try long distance person-to-person call.	____	____
5. If co-endorser on note, bill him or her for payment and ask for borrower's address.	____	____
6. Phone borrower's mother, father, relatives.	____	____
7. If married, phone spouse's mother, father, relatives.	____	____
8. Phone last-known employer.	____	____
9. Send letters to all relatives, references, and employer (provide form for information desired and a stamped addressed return envelope).	____	____
10. Send letters to appropriate leads furnished on exit interview form. (Gas & Oil Credit Card—Charge-a-Plates—Insurance Companies, etc.)	____	____
B. *Campus:*		
1. Contact Dean's Office of college from which borrower graduated or withdrew.	____	____
2. Registrar's Office: It is assumed transcripts and all college services were stopped when account became past due.	____	____
a. Write parents or guardian shown on admission application.	____	____
b. Write references on admission application.	____	____
c. Write high school principal on admissions transcript.	____	____
3. Contact Alumni Office.	____	____
4. Contact Placement Office.	____	____
5. Contact Major Department Head or Major Professor.	____	____
6. Contact Doan of Men and Dean of Women.	____	____
7. Contact Development Office.	____	____
8. Contact Guidance or Counseling Office.	____	____
9. Contact Chaplain's Office.	____	____
10. Check college yearbook for activities.	____	____
a. Contact advisors of appropriate clubs (music, dramatics, debate, press, letterman's, art, athletics, fraternities, sororities, etc.)	____	____

	Date items checked or rechecked	
C. *Off-Campus:*		
1. Business	____	____
a. Contact Driver's License Agencies.	____	____
b. Contact Armed Services.	____	____
c. Merchants Retail Credit Association.	____	____
d. Oil and Gasoline Credit Card Issuers.	____	____
e. Charge-a-Plate Issuers at last known address.	____	____
f. Local bank in home community.	____	____
g. Professional and Graduate Schools.	____	____
h. Contact institutions to which transcripts have been sent.	____	____
i. Contact Internal Revenue Service District Office in State of last residence.	____	____
2. Legal.		
a. Contact Chief of Police.	____	____
b. Contact Sheriff's Office.	____	____
c. Contact City Attorney or State Attorney General.		
D. *Professional Associations* (as appropriate):		
1. American Bar Association.	____	____
2. American Medical Association.	____	____
3. American Dental Association.	____	____
4. State Licensing Bureaus.	____	____
(1) Medical.	____	____
(2) Dental.	____	____
(3) Teaching.	____	____
(4) Nursing.	____	____
5. National and State Education Associations.	____	____
6. American Institute of Public Accountants.	____	____
7. National League of Nursing.	____	____
8. Society of Architects.	____	____
9. Labor Unions.	____	____
10. Engineers Council.	____	____
11. Pharmacists.	____	____
E. *Miscellaneous:*		
1. When did borrower leave last address?	____	____
2. Try leading stores or business in original hometown.	____	____
3. Check with other possible creditors.	____	____
4. Lodge, church, or social affiliations.	____	____
5. Military reserve activity.	____	____
6. Check litigation, prosecution, and divorce records.	____	____
7. If any real estate, check local Tax Assessor and Tax Collector.	____	____
8. Check with previous employers.	____	____
9. Check with hometown investigation agencies.	____	____
11. Check family pastor.	____	____
12. Check elementary school principal.	____	____

IF NECESSARY, START FROM THE BEGINNING AND RE-EXAMINE ALL LEADS.

Letter to Delinquent Skip (When Located)

Dear _____:

You are now living in a new area and we hope everything is going well. We are sure you will want to keep it that way and we would like to help. In order to do so, we need your assistance.

Your attention has been drawn several times to the fact that you have an overdue student loan. Our concern is that we have received no reply or payment. You are leaving us no choice but to report the condition of this loan to your local credit bureau.

We are reluctant to take this step because you probably have a clear record in your new locality. Such a report might very well result in considerable inconvenience and perhaps some embarrassment to you. Most certainly, your credit record would suffer.

Your check for $180.00, by return mail, will bring your account up to date and eliminate our need to make the report. Help yourself and the loan program by paying now!

Sincerely,

STUDENT LOAN FUND REPORT
July 31, 1983

Fund	Loans Outstanding: Current Number	Current Amount	30 days past due Number	30 days past due Amount	60 days past due Number	60 days past due Amount	90 days & over Number	90 days & over Amount	Total Number	Total Amount	Fund Balance	Amount Available for Loan
1	1	825.00			1	540.00	3	1,368.94	5	2,733.94	17,436.06	14,702.12
2	5	4,416.68			2	900.00	2	860.00	9	6,176.68	14,931.33	8,754.65
3											1,304.55	1,304.55
4											1,076.37	1,076.37
5	803	337,003.75	127	42,633.99	121	41,022.43	414	187,747.54	1,465	608,407.71	1,455,625.08	847,217.37
6											1,243.84	1,243.84
7	3	2,145.00					1	789.75	4	2,934.75	3,086.71	151.96
8	4	3,613.00					1	1,650.00	5	5,263.00	6,170.68	907.68
9	1	500.00					1	500.00	2	1,000.00	4,207.47	3,207.47
10							1	200.00	1	200.00	2,304.57	2,104.57
11	2	2,575.00			1	200.98	1	40.00	4	2,815.98	5,298.94	2,482.96
12											8,454.11	8,454.11
13											1,854.15	1,854.15
14	1	1,365.25							1	1,365.25	1,904.13	538.88
15											740.00	740.00
16											1,412.00	1,412.00
17											500.00	500.00
18	23	4,914.50					3	750.00	26	5,664.50	10,780.99	5,116.49
19	1	565.00							1	565.00	1,838.11	1,273.11
20	20	13,068.92	2	2,550.00					22	15,618.92	26,773.10	11,154.18
21							1	500.00	1	500.00	9,405.97	8,905.97
22	18	15,702.53	2	1,400.00	3	2,475.50			23	19,578.03	21,437.86	1,859.83
23	2	550.00							2	550.00	11,107.44	10,557.44
24	3	2,271.00							3	2,271.00	24,538.20	22,267.20
25	5	4,620.00					1	1,900.00	6	6,520.00	6,823.49	303.49
26											1,000.00	1,000.00
27	3	3,896.19			1	900.00			4	4,796.19	7,804.90	3,006.71
28											1,000.00	1,000.00
29											1,800.00	1,800.00
30											4,882.23	4,882.23
31	2	2,000.00							2	2,000.00	2,732.64	732.64
32											1,725.00	1,725.00
33	59	29,967.47	7	3,839.22	10	7,477.95	37	18,905.57	113	60,190.21	201,896.62	141,706.41
34	6	6,510.00					4	931.81	10	7,441.81	46,704.16	39,262.35
35	4	4,875.00					3	2,174.51	7	7,049.51	28,492.73	21,443.22
36	1	706.89							1	706.89	7,807.02	7,100.13
37											1,200.00	1,200.00
	967	442,093.18	138	50,423.21	139	53,516.86	473	218,318.12	1,717	764,351.37	1,947,300.45	1,182,949.08
7/82	1,044	411,103.18	156	44,577.70	258	80,657.38	510	230,708.70	1,968	767,046.96	1,865,305.51	1,098,258.55

Exhibit GEN-36

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Appendix II: NDSL Forms, Letters, and Other Documents

LEGISLATIVE CHANGES AFFECTING THE NDSL PROGRAM

Provisions of the original statute—National Defense Education Act of 1958, P.L. 85-864, September 2, 1958.

1. Eligible—institutions of higher education in a state.

   As defined in section 103(a) of the Act, "States" include the 48 states plus Alaska, Hawaii, Puerto Rico, District of Columbia, Canal Zone, Guam, and the Virgin Islands.

   The term "institution of higher education" means an educational institution in any State which (1) admits as regular students only persons having a certificate of graduation from a school providing secondary education, or the recognized equivalent of such a certificate, (2) is legally authorized within such State to provide a program of education beyond secondary education, (3) provides an educational program for which it awards a bachelor's degree or provides not less than a two-year program which is acceptable for full credit toward such a degree, (4) is a public or other nonprofit institution, and (5) is accredited by a nationally recognized accrediting agency or association or, if not so accredited, for credit on the same basis as if transferred from an institution so accredited. For purposes of Title II, such term includes any private business school or technical institution which meets the provisions of clauses (1), (2), (3), (4), and (5). For purposes of this subsection, the Commissioner shall publish a list of nationally recognized accrediting agencies or associations which he determines to be reliable authority as to the quality of training offered.

2. State allotment formula established against which allotments in each state are made relative to higher education enrollment in each state to the nation as a whole (based on full-time higher education enrollment). (section 202(a)) (Changed by P.L. 92-318)
3. Preference to "superior" students and those with special preparation or professional plans. (section 204-4) (deleted by 1968 amendments)
4. $1,000/fiscal year maximum loan per student, $5,000 aggregate maximum loan obligation per student. (section 205(a)) (Changed by 1964 amendments)
5. Only full-time students eligible. (section 205(b)(1)) (Changed by 1964 amendments)
6. Limitation of $250,000 federal capital contribution per institution for the duration of the program.
7. Repayments on an annual basis. (section 205(b)(2)) (Changed by 1965 amendments)
8. Deferment for up to three (3) years military service. (Ibid.)
9. Loan cancellation (ten (10) percent/per year) of up to fifty (50) percent of obligations for teaching service. (section 205(b)(3)) (Teaching in institutions of higher education added by 1964 amendments)
10. Institutions allowed to borrow their loan-matching share from the federal government. (section 207)
11. Loyalty oath and "disclaimer" affidavit required of borrower. (section 1001(f))

1961 Amendments (P.L. 87-293)

1. Deferment for up to three (3) years' service in the Peace Corps.

1961 Amendments (P.L. 87-400)

1. Loan period changed from fiscal to academic year (refers to maximum amount a student may borrow in a given period). (section 205(a))

1962 Amendments (P.L. 87-835)

1. Disclaimer affidavit requirement repealed. Loyalty oath retained as a requirement for receipt of loan. (section 3, Ref. 1001, NDEA of 1958)

The period beginning with the Amendments of 1963 represents the time of most substantial changes within the program vis-a-vis student entitlements, institutional flexibilities (especially insofar as ceilings on fundings, administrative cost assistance and repayment options are concerned), and program growth.

1963 Amendments (P.L. 88-210)

1. "State" includes Samoa. (section 103(a))
2. Loan cancellation made applicable to full-time teaching service in overseas school of the U.S. Government. (section 22, Ref. 205(3))
3. Deferment of obligations permitted for full-time study in "comparable" higher education institutions overseas. (section 22, Ref. 205(2)(A)(i))
4. Federal capital contribution ceiling raised to $800,000 per institution.

1964 Amendments (P.L. 88-665)

1. Graduate students eligible for up to $2,500/year to a maximum of $10,000. Undergraduate students eligible for up to $5,000 maximum. Aggregate obligations for all study not to exceed $10,000. (section 205)
2. Federal capital contribution ceiling per institution lifted.
3. Loans available for half-time student. (section 205(b)(1))
4. Deferment for half-time student status up to three (3) years—interest accrues. (section 205(b)(2))
5. Teaching in higher education eligible for loan cancellation benefits. (section 205(b)(3))
6. Preference for students in certain areas of preparation and/or study repealed. (section 204(a))
7. Deferment not to exceed 3 years during which the borrower is in service as a volunteer under Title VIII of Economic Opportunity Act of 1964 (VISTA); provided that this clause shall apply to any loan outstanding on the effective date of the Peace Corps Act only with the consent of the then obligee institution.

   (NOTE: College Work-Study Program was enacted in 1964 as Title I, Part C, of the Economic Opportunity Act of 1964.)

1965 Amendments—Higher Education Act of 1965 (P.L. 89-329)

1. "Eligible institutions" to include those providing one (1) year training (include schools of nursing) to prepare students for gainful employment in a recognized occupation.
2. Participating institutions permitted to withdraw approved administrative expenses from the fund (not to exceed the lesser of (a) half of actual costs or (b) one (1) percent of outstanding loan principal). (section 462, Ref. 204(3)) (Changed by 1968 amendments)
3. Other costs reimbursable including litigation and collection. (Ibid.)
4. More frequent-than-annual repayments required on loans made after enactment to encourage higher fund turnover. (section 463a, Ref. 205(b)(2) (monthly, bimonthly, or quarterly)
5. Grace period reduced to nine months. (Ibid.)
6. No interest accrual during half-time student deferment in USA or at "comparable" foreign institutions. (Ibid.)

7. Deferment for less than half-time study at option of lending institution—but interest accrues. (Ibid.)
8. Institutions may require minimum repayments at option of institution—$15 a month (section 464, Ref. 205(b)(2))
9. Institutions may assess late charges at option of institution. (Section 466, Ref. 205)
10. Loan cancellation raised to 15 percent per year in certain elementary and secondary schools with up to 100 percent cancellation possible. (Section 465(a), Ref. 205(b)(2)) Only 25 percent of schools in any state in a given year. Designation by Commissioner upon advice and assistance of State Department of Education, and schools must be in a district eligible for ESEA Title I funds.

(NOTE: The Higher Education Act of 1965 authorized the Educational Opportunity Grant Program and transferred the College Work-Study Program to OE, thus establishing the "three-legged stool" of SFA—EOGP, CWSP, and NDSLP.)

1966 Amendments (P.L. 89-752)

1. Loan cancellation of 15 percent per year for teachers of the handicapped. (Section 16a, Ref. 205(b)(3))
2. "State" includes Trust Territory of the Pacific Islands. (Ibid.)

1968 Amendments (P.L. 90-575)

1. Reimbursement for administrative expense changed to 3 percent of total loans made during a fiscal year—subject to limitation of $125,000 per year for the three programs (NDSLP, CWSP, and EOGP).
2. Amended Section 205(b)(3) of NDEA of 1958 by deleting all teacher cancellation. (Note that this was reinstated by virtue of Title V, Section 501, of the ESEA Amendments of 1969.)
3. Amended Section 103 of Title II of the NDEA of 1958, as amended, to provide participation in program, if appropriation exceeds $190 million, to institutions which:
   a. provide "not less than a six-month program of training to prepare students for gainful employment in a recognized occupation,"
   b. admit "as regular students only persons having a certificate of graduation from a school providing secondary education, or the recognized equivalent of such certificate,"
   c. "is legally authorized within such State to provide a program of education beyond secondary education,"
   d. "is accredited by a nationally recognized accrediting agency or association approved by the Commissioner," and
   e. includes in its agreement assurance "that the availability of assistance to students at the school . . . has not, and will not increase the tuition, fees, or other charges to such students."
4. As a result of the above, commencing with the academic year 1969–70, teachers in such schools may receive partial cancellation of their loans at the 10 percent rate.
5. Elimination of requirement of special consideration for students of superior academic background.
6. Waiver of oath of allegiance requirements for residents of the Trust Territory of the Pacific Islands.

1970—Elementary and Secondary Education Act Amendments of 1970, (P.L. 91-230)

1. Amended Section 205(b)(5) of the NDEA of 1958 to provide cancellation on loans made after April 13, 1970, date of enactment of the Amendments, for

each year of military service after June 30, 1970, at the yearly rate of 12½ percent, not to exceed 50 percent of the borrower's total loan.

1972—Education Amendments of 1972 (P.L. 92-318)

The Education Amendments of 1972 established a successor program under Title IV, Part E, of the Higher Education Act, which "is and shall be deemed to be, a continuation of the program authorized by Title II of the National Defense Education Act of 1958." The Office of Education named the successor program the National Direct Student Loan Program to distinguish it from the previous National Defense Student Loan Program. NDEA Title II was not repealed as such (except for Section 206), and benefits, repayments, and cancellation provisions pertaining to loans made prior to July 1, 1972 were not changed. The following provisions or differences should be noted:

1. Section 462(a)(1) of Title IV, Part E changes the allotment formula for appropriate funds, to provide that 90 percent are allotted by formula and 10 percent by (a) a hold-harmless to FY 1972 and (b) special regulatory criteria.
2. Title IV-E does not provide for cancellations at 10 percent for teaching service in public or nonprofit elementary or secondary schools, or in institutions of higher education.
3. The provisions for cancellation for service in designated low-income schools (with changes in criteria for selection) and cancellation for teaching of the handicapped were retained. Borrowers may cancel the entire amount of their loans at a progressively increasing rate over a period of 5 years.
4. The provision permitting cancellation for military service was changed to require that such service must be performed in "an area of hostilities."
5. Cancellation for service as a full-time member of Head Start at the rate of 15 percent annually was established.
6. Cancellation for service as a full-time staff member of Head Start at the rate of 15 percent annually was established for Direct Loans only.
7. New aggregate loan limitations ($2,500 through the first two years, $5,000 through all undergraduate study, $10,000 through completion of graduate or professional study) replaced the former annual loan maximum.
8. A provision was added for assignment to the Office of Education of loans in default for more than two years, despite the exercise by the institution of due diligence in their collection.
9. An affidavit of educational purpose is required on all National Direct Student Loans granted by institutions.
10. On Direct Loans, the federal government shall repay to the institution the aggregate amount of loan cancellation (teacher and military) to the institution to be redeposited into the fund. (The government restores only the institutional share of amounts cancelled on Defense Loans.)
11. In determining the need by a veteran for a Direct Loan, an institution shall not take into account the income and assets of his or her parents.
12. Repayment on a loan may be required at no less than thirty dollars ($30) monthly at the option of the institution.
13. Any student granted a loan who thereafter fails to maintain "good standing" shall upon notice to the Commissioner be suspended, and further payments to, or on behalf of, such student shall not be made until such student regains "good standing."
14. Does not include provision for cancellation in the event of the borrower's death or permanent and total disability.

1976—Education Amendments of 1976 (P.L. 94-482)

1. Section 463(a) of the Act is amended by changing the default definition to read (A) one hundred and twenty days in the case of a loan which is repayable in

monthly installments, or (B) one hundred and eighty days in the case of a loan which is repayable in less frequent installments.

2. Section 464(c)(1)(A) of the Act now allows repayment to begin earlier than nine months after the borrower leaves school if the borrower so requests.
3. Section 464(c)(1)(C) of the Act allows the institution to permit a borrower to pay less than $30.00 per month for a period of not more than one year, where necessary to avoid hardship to the borrower, but without extending the 10-year maximum repayment period.
4. Section 464(c)(1) of the Act restores the provision that the liability to repay the loan shall be cancelled upon the death of the borrower, or in the event the borrower becomes permanently and totally disabled. This change is retroactive to June 23, 1972.
5. Section 493 of the Act increases the Administrative allowance from three percent to four percent. The maximum allowance was increased from $125,000 to $325,000. This additional allowance is to be used first to carry out informative dissemination activities to prospective students and to enrolled students who request information regarding financial assistance. The balance may then be used for additional administrative costs as the institution determines necessary.
6. Due diligence requires an institution to provide three notices during the grace period.
7. Institutions must submit to the Commissioner of Education a report of their defaults twice each year.
8. A new delinquency rate definition is established having the amount of principal "in default" but not uncollectible divided by the amount paid, cancelled, or past due but not uncollectible. No loan currently in deferred status is considered past due, even if it was past due before the beginning of the deferment period.
9. Defines those loans which may be written off to HEW as loans on which the institution has performed due diligence and which remain uncollectible at the institution. "Uncollectible" means a loan in default for two years or more.

1979—Higher Education Technical Amendments of 1979 (P.L. 96-49)

1. Added a new Section 467 to the Higher Education Act that permitted the referral for collection of defaulted loans.

1980—Educational Amendments of 1980, (P.L. 96-374)

1. Increased interest rate to four percent.
2. Establishes aggregate loan limits of $6,000 for Juniors and Seniors, $3,000 for Freshmen and Sophomores, and $12,000 for graduates and undergraduates combined.
3. Sets grace period on new loans at six months, and includes six-month grace periods after deferments.
4. Provides for deferment when borrower is:
   (a) An officer in the Commissioned Corps of Public Health Service (three years maximum);
   (b) A full-time volunteer for an organization which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1954 (three years maximum);
   (c) Temporarily totally disabled or unable to work because of care required by spouse who is disabled (three years maximum);
   (d) Serving an internship which is required to begin professional practice or service (two years maximum).
5. Extends the ten-year repayment for an additional ten years for "low-income individuals."

6. Increases administrative allowance to five percent of the first $2,750,000 of expenditures, plus four percent of the next $2,750,000, plus three percent of all expenditures over $5,500,000 on all Title IV Programs.
7. Requires that special pre-loan information be given to borrowers.

1980—Continuing Appropriations Act of 1980, (P.L. 96-536)

1. Delayed implementation of interest rate change from three percent to four percent until July 1, 1981.

1981—Postsecondary Student Assistance Amendments of 1981, contained in the *Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35)*

1. Changed interest rate from four percent to five percent effective October 1, 1981.

1982—Student Financial Assistance Technical Amendments of 1982, (P.L. 97-301)

1. Replaced the requirement of providing truth-in-lending information, as required in Regulation Z, with disclosure requirements.

1983—Student Loan Consolidation and Technical Amendments Act of 1983 (P.L. 98-79)

1. Replaced the 1982 disclosure requirements with new disclosure requirements.

NATIONAL DEFENSE/DIRECT STUDENT LOANS
STATEMENT OF RIGHTS AND RESPONSIBILITIES

Your National Direct Student Loan is a serious legal obligation. Therefore, it is extremely important that you understand your rights and responsibilities. When you, the student borrower, sign this statement it means that you do understand your responsibilities, and you agree to honor them.

1. I understand I must, without exception, report any of the following changes to_____
   _____
   (a) If I withdraw from school.
   (b) If I transfer to another school.
   (c) If I drop below half-time status.
   (d) If my name should change (for example, because of marriage).
   (e) If my address or my parents' address changes.
   (f) If my Social Security number should change.
2. When I graduate or withdraw from _____I must arrange for an exit interview by calling _____.
3. My first monthly payment will be due seven months from the time I cease to be at least a half-time student.
4. My monthly payment will be at least $30.00. It may be more if the amount borrowed is sufficient to require larger payments. The maximum length of time for repayment is 10 years.
5. The ANNUAL PERCENTAGE RATE of 5% will be the FINANCE CHARGE based on the unpaid balance and it will begin to accrue six months after I cease to be enrolled as at least a half-time student.
6. Cancellation will be granted for certain types of elementary or secondary school teaching; for military service in areas of hostilities; for full-time staff members in Head Start; and in the event of death or permanent disability. I understand the school must be informed of such status.
7. If I enter the military service, Peace Corps, VISTA, or service comparable to either, become an officer in the Commissioned Corps of the U.S. Public Health Service, serve an approved internship which is required to begin professional practice, or if I return to at least half-time study at an accredited institution of higher education, I may request that payments on my loan be deferred.
8. If I fail to repay my loan as agreed, the total loan may become due and payable immediately and legal action could be taken against me. If I allow my loan to become more than 120 days past due if payable monthly, or 180 days past due if payable other than monthly, my loan will be considered in default and I will be ineligible for any Title IV Funds. If my loan remains in default for two or more years it may be assigned to the U.S. Government for collection.
9. I will promptly answer any communication from _____regarding the loan.
10. I may prepay at any time. Interest will be reduced by prepaying.
11. If I cannot pay on time, I must contact the _____Loans Receivable Division to make arrangements.
12. I realize that aggregate loan limits are $12,000 for a graduate or professional student, $6,000 for an undergraduate who has completed two years toward a degree, and $3,000 for an undergraduate who has not completed two years toward a degree. Acceptance of this loan will reduce my eligibility for other aid to meet my school budget.
13. I authorize _____to contact any school which I may attend, to obtain information concerning my student status, my year of study, my dates of attendance, graduation, or withdrawal, my transfer to another school, or my current address. This authorization is in effect until my loan is paid in full.
14. I authorize _____to report this loan to credit reporting bureaus.

* * * * * * * * * * * * * * * *

THIS IS A LOAN WHICH MUST BE REPAID

* * * * * * * * * * * * * * * *

I ATTEST THAT I HAVE READ AND UNDERSTAND THE RESPONSIBILITIES AND OPTIONS AVAILABLE TO ME, AND THAT I WILL ADHERE TO THEM.

_____	_____	_____
Date	Signature of Student	Student No.

NDSL DEFAULT REPORT

BASED ON OUTSTANDING BALANCES 120 DAYS OR MORE PAST DUE

DATE	1 LOANED	2 IN SCHOOL	3 GRACE PERIOD	4 IN REPAYMENT (1 - (2+3)	5 PAST DUE- NOT PAYING	6 AT E.D.	7 IN DEFAULT (5 - 6)	8 DEFAULT RATE (7 - 4)
6/30/82	51,618,047	6,056,833	2,311,858	43,249,858	4,581,378	1,803,621	2,777,757	6.4227
7/31/82	51,623,034	5,749,558	2,709,072	43,164,404	4,537,969	1,803,621	2,734,348	6.3348
8/31/82	51,678,852	5,772,976	1,989,081	43,916,795	4,726,954	1,803,621	2,923,333	6.6566
9/30/82	51,890,611	5,950,725	2,096,826	43,843,060	4,602,794	1,803,621	2,799,173	6.3846
10/31/82	52,698,091	5,212,132	3,740,482	43,745,477	4,571,427	1,803,621	2,767,806	6.3271
11/30/82	52,742,605	5,297,981	2,588,593	44,856,031	4,939,966	1,803,621	3,136,345	6.9921
12/31/82	52,797,545	5,362,421	2,640,939	44,794,185	4,855,696	1,803,621	3,052,075	6.8136
1/31/83	53,864,970	6,454,151	2,565,706	44,845,113	4,843,386	1,803,621	3,039,765	6.7784
2/28/83	53,910,515	6,418,373	803,044	46,689,098	4,771,107	1,803,621	2,967,486	6.3559
3/31/83	54,007,834	6,188,000	1,293,474	46,526,360	4,818,260	2,596,484	2,221,776	4.7754
4/30/83	54,918,480	6,521,173	1,961,184	46,436,123	4,750,930	2,596,484	2,154,446	4.6396
5/31/83	54,924,162	6,007,280	2,307,628	46,609,254	4,853,531	2,596,484	2,257,047	4.8425
6/30/83	55,538,813	6,474,684	2,580,761	46,483,368	4,786,382	2,596,484	2,189,898	4.7111
7/31/83	55,546,133	6,409,564	2,758,855	46,377,714	4,741,908	2,596,484	2,145,424	4.6260
8/31/83	55,5962900	6,413,066	1,996,657	49,183,834	4,862,316	2,596,484	2,265,832	4.6069
9/30/83	56,605,383	7,384,304	2,103,024	47,118,055	4,833,944	2,596,484	2,237,460	4.7487
10/31/83	56,619,022	5,982,219	3,587,366	47,049,437	4,801,146	2,596,484	2,204,662	4.6859
11/30/83	56,620,922	5,973,648	2,747,607	47,899,728	4,996,728	2,671,434	2,325,294	4.8546
12/31/83	56,639,732	6,022,523	2,022,069	48,595,140	5,003,379	2,671,434	2,331,945	4.7988
3/30/84	58,407,650	7,149,377	1,446,437	49,811,836	5,245,583	2,671,434	2,574,149	5.1678

NOTE:
1. The amount loaned is the cumulative from the beginning of program.
2. The in school amount is the amount loaned to students still at MSU.
3. The grace period amount is the amount loaned to students who have left MSU but whose loans are not due.
4. The in repayment amount is column 1 minus column 2 and 3.
5. The past due - not paying represents those loans over 120 days past due on which payments are not being made.
6. The At E.D. shows the balance of the accounts assigned to E.D. for collection.
7. The in default amount is column 5 minus column 6.
8. The default rate is the amount in default divided by the amount in repayment.
9. If column 8 goes above 10%, the government could cut funds.

Exhibit NDSL-39

Exhibit NDSL-40

PROMISSORY NOTE

NATIONAL DIRECT STUDENT LOAN PROGRAM

SOCIAL SECURITY NO._____

I _____, promise to pay to _____(hereinafter called the Lending Institution), located at _____the sum of the amounts that are advanced to me and endorsed in the Schedule of advances set forth below; I promise to pay all attorney's fees and other reasonable collection costs and charges necessary for the collection of any amount not paid when due. However, if a collection agency, which is subject to the Fair Debt Collection Practices Act, is used, I will pay those collection costs which do not exceed 25% of the unpaid principal and interest.

SCHEDULE OF ADVANCES

AMOUNT	SEMESTER	DATE SIGNED	SIGNATURE OF MAKER
1. $			
2. $			
3. $			

I further understand and agree that:

I. GENERAL

(1) All sums advanced under this note are drawn from a fund created under Part E of Title IV of the Higher Education Act of 1965, hereinafter called the Act, and are subject to the Act and the Federal Regulations issued under the Act. The terms of this note must be interpreted in accordance with the Act and Federal Regulations, copies of which are to be kept by the Lending Institution.
(2) I understand that if I am eligible for deferment or cancellation under Articles VI through IX, I am responsible for submitting the appropriate requests on time.

II. INTEREST

(1) Interest shall accrue from the beginning of the repayment period and shall be at the ANNUAL PERCENTAGE RATE OF FIVE PERCENT (5%) interest on the unpaid balance except that no interest shall accrue during any deferment period described in subparagraphs VI(1) (A), (B), (C) and (D).

III. REPAYMENT

(1) Except as provided in paragraph III(5), I promise to repay the principal and the interest which accrues on it over a period beginning 6 months after the date I cease to be at least a half-time student at an institution of higher education, or at a comparable institution outside the United States approved for this purpose by the United States Secretary of Education (hereinafter called the Secretary), and ending unless paragraphs III(4) or VI(1) (deferment) applies, 10 years later.
(2) I may, however, request that the repayment period start on an earlier date.
(3) I promise to repay the principal and interest over the course of the repayment period in equal monthly, bimonthly or quarterly installments, as determined by the Lending Institution. However, if I request, repayments may be made in graduated installments determined in accordance with schedules approved by the Secretary. In either case, a schedule of repayment shall be attached to and made part of this note.
(4) Notwithstanding paragraph III(1), if I qualify as a low-income individual during the repayment period, the Lending Institution may, at my request extend the repayment period for up to an additional 10 years or adjust any repayment schedule to reflect my income, or both.
(5)(A) I shall repay the principal and interest on this loan at the rate of $30 per month (which includes both principal and interest) even though the monthly rate that would be established under paragraph III(1) is less than that amount, if the total monthly repayment rate of principal and interest on all my National Direct and National Defense Loans, including this loan, is less than $30 per month.
(5)(B) If I have received National Defense or National Direct Loans from other institutions and total monthly repayment rate on those loans is less than $30, the $30 monthly rate established under subparagraph III(5)(A) is the rate I pay on all my outstanding National Defense and National Direct Loans and is not in addition to the amount I pay on those other loans.
(5)(C) If my monthly repayment rate is established under subparagraph III(5)(A) and I have received National Defense or National Direct Loans from other lending institutions, the amount of my monthly repayment rate attributable to this loan is the amount which represents the difference between $30 and the monthly rates I must pay on my other National Defense and National Direct Loans.
(6) A schedule of repayment will be attached to and made part of this note.
(7) The Lending Institution may permit me to pay less than the rate of $30 per month for a period of not more than one year where necessary to avoid hardship to me unless that action would extend the repayment period in paragraph III(1).

IV. PREPAYMENT

(1) I may at my option and without penalty prepay all or any part of the principal, plus the accrued interest thereon, at any time.
(2) Amounts I repay in the academic year in which the loan was made will be used to reduce the amount of the loan and will not be considered a prepayment.
(3) If I repay more than the amount due of any installment, the excess will be used to prepay principal unless I designate it as an advance payment of the next regular installment.

V. DEFAULT

(1) If I fail to make a scheduled repayment of any installment or I fail to file cancellation or deferment forms with the Lending Institution on time, the entire unpaid indebtedness including interest due and accrued thereon, plus any applicable penalty charges, will, at the option of the Lending Institution, become immediately due and payable.
(2) I understand that if I default on my loan repayments the Lending Institution may disclose that I have defaulted, along with other relevant information, to credit bureau organizations.
(3) Further, I understand that if I default on my loan repayments and the loan is sent to the Secretary for collection, the Secretary may disclose that I have defaulted, along with other relevant information, to credit bureau organizations.

VI. DEFERMENT

(1) Interest will not accrue, and installments need not be paid—
(A) While I am enrolled and in attendance as at least a half-time student at an institution of higher education or at a comparable institution outside the United States approved for this purpose by the Secretary.
(B) For a period not in excess of 3 years during which I am—
(i) on full-time active duty as a member of the Armed Forces of the United States (Army, Navy, Air Force, Marine Corps, or Coast Guard), or an officer on full-time active duty in the Commissioned Corps of the U.S. Public Health Service,
(ii) in service as a volunteer under the Peace Corps Act,
(iii) a volunteer under the Domestic Volunteer Service Act of 1973,
(iv) a full-time volunteer in a tax-exempt organization performing service comparable to the service performed in the Peace Corps or under the Domestic Volunteer Service Act of 1973 (ACTION agency programs), or
(v) temporarily totally disabled as established by an affidavit of a qualified physician, or unable to secure employment because I am providing care required by my spouse who is so disabled,
(C) For a period not in excess of two years during which time I am serving in an internship which is required in order that I may receive professional recognition required to begin my professional practice or service, and
(D) During any grace period. A grace period is a six-month period following (i) the date I cease to be at least a half-time student at an institution of higher education, or (ii) the date the deferments described in subparagraph VI(1)(A), (B) or (C) expire.
(2) The Lending Institution may, upon my application, defer or reduce any scheduled repayments if, in its opinion, extraordinary circumstances, such as prolonged illness or unemployment, prevent me from making such repayments. However, interest will continue to accrue.

VII. CANCELLATION FOR TEACHING

(1) I am entitled to have up to 100 percent of the amount of this loan plus the interest thereon cancelled if I undertake service—
(A) as a full-time teacher in a public or other non-profit elementary or secondary school which is in a school district of a local educational agency which is eligible for funds under Title I of the Elementary and Secondary Education Act of 1965 and which has been designated by the Secretary in accordance with the provisions of Section 465 (a)(2) of the Higher Education Act as a school with a high enrollment of students from low-income families, or
(B) as a full-time teacher of handicapped children (including mentally retarded, hard of hearing, deaf, speech-impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired children with specific learning disabilities, or other health-impaired children who by reason thereof require special education and related services) in a public or other not-profit elementary or secondary school system.
(2) This loan will be cancelled at the following rates:
(A) 15 percent of the total principal amount of the loan plus interest on the unpaid balance will be cancelled for the first and second complete academic years of that teaching service;
(B) 20 percent of the total principal amount plus interest on the unpaid balance for the third and fourth complete academic years of that teaching service; and
(C) 30 percent of the total principal amount plus interest on the unpaid balance for the fifth complete academic year of that teaching service.

VIII. HEAD START CANCELLATION

(1) I am entitled to have up to 100 percent of the amount of this loan plus the interest thereon cancelled if I undertake service as a full-time staff member in a Head Start program if—
(A) that Head Start program is operated for a period which is comparable to a full school year in the locality, and
(B) my salary is not more than the salary of a comparable employee of the local educational agency.
(2) This loan will be cancelled at the rate of 15 percent of the total principal amount plus the interest on the unpaid balance for each complete school year or the equivalent of service in a Head Start program.
(3) Head Start is a preschool program carried out under section 222(a)(1) of the Economic Opportunity Act of 1964.

IX. MILITARY CANCELLATION

(1) I am entitled to have up to 50 percent of the principal amount of this loan plus the interest thereon cancelled if I serve as a member of the Armed Forces of the United States in an area of hostilities that qualifies for special pay under Section 310 of Title 37 of the United States Code.
(2) This loan will be cancelled at the rate of 12½ percent of the total principal amount plus interest on the unpaid balance for each complete year of such service.

X. DEATH AND DISABILITY CANCELLATION

If I should die or become permanently and totally disabled, the entire amount of this loan plus the interest thereon shall be cancelled.

XI. CHANGE IN NAME, ADDRESS, AND SOCIAL SECURITY NUMBER

I am responsible for informing the Lending Institution of any change or changes in my name, address, or social security number.

XII. PENALTY CHARGE

(1) If I fail to make timely payment of all or any part of a scheduled installment, or if I am eligible for deferment or cancellation under Articles VI through IX, but fail to submit the appropriate request on time, I promise to pay the charge assessed against me by the Lending Institution.
(2) No charge may exceed—
(A) where the loan is repayable in monthly installments, $1 for the first month or part of a month by which the installment or evidence is late, and $2 for each month or part of a month thereafter, or
(B) where the loan is repayable in bimonthly or quarterly installments, $3 and $6, respectively, for each installment interval or part thereof by which the installment or evidence is late.
(3) If the Lending Institution elects to add the assessed charge to the outstanding principal of the loan, it must so inform me before the due date of the next installment.

XIII. ASSIGNMENT

This note may be assigned by the Lending Institution only—
(1) to another institution upon my transfer to that institution if that institution is participating in this program (or, if not so participating, is eligible to do so and is approved by the Secretary for that purpose), or
(2) to the United States or to an institution approved by the Secretary.
The provisions of this note that relate to the Lending Institution shall, where appropriate, relate to an assignee.

XIV. PRIOR LOANS

I hereby certify that I have listed below all of the National Direct Student Loans (or National Defense Student Loans) I have obtained at other institutions. (If no prior loans have been received, state "None."

SCHEDULE OF NATIONAL DIRECT STUDENT LOANS AND NATIONAL DEFENSE STUDENT LOANS AT OTHER INSTITUTIONS

AMOUNT	DATE	INSTITUTION
1. $		
2. $		
3. $		

Signature Date

Social Security Number

Permanent Address
(Street or Box Number, City, State, and Zip Code)

Address
(Street or Box Number and Zip Code)

CAVEAT—This note is to be executed without security and without endorsement except that if I am a minor and this note would not, under the law of the State in which the Lending Institution is located, create a binding obligation, either security or endorsement may be required. The Lending Institution shall supply a copy of this note to me.

Signature of Endorser Date
Signature of Parent (father if living), Guardian

Endorser's Social Security Number

Permanent Address of Endorser
(Street or Box Number, City, State, and Zip Code)

SAMPLE REPAYMENT LETTER

(DATE) Account Number _____

(NAME)
(ADDRESS)
(ADDRESS)

Dear (NAME):

The National Direct Student Loan Program, from which you borrowed $(AMOUNT) while you were a student at (INSTITUTION), requires repayment in monthly installments with a FINANCE CHARGE computed at an ANNUAL PERCENTAGE RATE of 05.000%. This FINANCE CHARGE will begin to accrue on (DATE) and will be calculated on the unpaid balance of your loan.

The AMOUNT FINANCED along with the FINANCE CHARGE of $(AMOUNT) will be payable in (NUMBER) monthly payments of $(AMOUNT) each, beginning on (DATE). Statements will be sent approximately 20 days before each payment is due. The total amount to be repaid, if paid in accordance with this schedule, will be $(AMOUNT).

This repayment schedule is subject to provisions relating to DELINQUENCY and DEFAULT CHARGES as specified in your promissory note, copies of which are enclosed. The amount shown as your monthly payment is the minimum amount due per month to keep your loan current. (NOTE: Final payment may be smaller.) Checks should be payable to (INSTITUTION). This loan will also be reported to the Credit Bureau and may be used as a credit reference.

Enclosed is a brochure which covers information regarding cancellation and deferment benefits. If forms are not received with your first bill, please request them from this office.

Sincerely,

(ANALYST)
Loan Analyst
(PHONE NUMBER)

P.S. Please complete the information requested below, keep the original, and return the copy in the enclosed envelope. PLEASE PRINT.

Name _____ Date _____
Street Address _____
City _____ State _____ Zip _____
Phone (___) ___-____

_____
Borrower's Signature

Letter for Missed Exit Interview

Dear_____:

Since I did not know you were leaving [Sample Institution], and did not have an exit interview with you before you left school to give you the information on the repayment of your National Direct Student Loan (NDSL), I am enclosing the information that would have been given to you during such an interview.

This information includes a booklet which explains the obligations and benefits of your loan. Read these guidelines carefully to understand the provisions that apply to your loan(s). I have also enclosed copies of your promissory note(s).

Enclosed are the following forms that must be completed, signed, and returned within two (2) weeks to the Student Loan Office, [Sample Institution], to become part of your permanent National Direct Student Loan file:

1. Loan Interview Personal and Confidential Information
2. NDSL Repayment Schedule(s)

Please retain the extra copy of each of these for your personal records.

If you are eligible for deferment, postponement, or partial cancellation of your loan, a request form is enclosed. If you are eligible, please submit the forms in duplicate. Student deferment requests must be submitted in duplicate for each school semester (or quarter) within thirty (30) days of the start of that semester (or quarter). Additional forms will be sent upon request. The submission of these forms in a timely manner is as important as making a payment on your loan.

Payments must be made to [Sample Institution] on receipt of the billing notice. If you are unable to pay or have any questions at all concerning the repayment of your loan, please do not hesitate to write or call this office at (___)_____.

Sincerely,

NDSL

DSL

Your Rights and Obligations as a National Defense/Direct Student Loan Recipient

BORROWER RIGHTS

A. *GRACE PERIOD* — The interval between graduation or termination of at least half-time studies and commencement of repayment is called the "period of grace." This grace period consists of six (6) consecutive months for loans obtained after June 30, 1981; nine (9) consecutive months for loans obtained between November 8, 1965 and June 30, 1981; and twelve (12) consecutive months for loans obtained prior to November 8, 1965. During this period, repayment need not be made and interest will not accrue. However, you are encouraged at your option, and without penalty, to make prepayment during this period of time with the idea of saving on interest and repaying your loan in less than the time provided.

B. *DEFERMENT PRIVILEGES*—You may defer (delay) payments on your loan by submitting forms, properly completed and certified for any of the following categories:

1) *Student*—Upon expiration of the grace period, a borrower returning to an institution of higher education within the United States, or attending a comparable institution outside the States, may defer payments for the entire period that at least a half-time course of study is maintained.

2) *Military*—As a "member of the Armed Forces of the United States" on sustained full-time active duty, a borrower is entitled to defer repayment for a maximum of three years.

3) *Peace Corps or VISTA*—Members are entitled to defer repayment for a maximum of three years.

4) *Public Health Service*—Officers in P.H.S. may defer payment up to three years on loans granted after 9/30/80.

5) *Volunteer Service in Tax Exempt Organization*—Volunteers performing service in tax exempt organizations similar to Peace Corps or Vista may defer payment up to three years on loans granted after 9/30/80.

6) *Temporary Disability*—If you become temporarily disabled, or if your spouse is disabled and you cannot work because of the care needed, you may defer payment up to three years on loans granted after 9/30/80.

7) *Internships*—Deferment may be granted for up to 2 years while serving in an internship which is necessary to gain professional recognition for loans granted after 9/30/80.

8) *Extreme Hardship*—In a case of extreme financial hardship, deferral of repayment is sometimes allowed for short periods of time, dependent on the circumstances and determined by Michigan State University. Interest on the loan continues to accrue during hardship deferments.

Deferments are not granted in advance. Rather, deferment of repayment is granted to loan recipients who file a "request form" signed and certified for a completed period of time. Submission of these forms is required once each year or upon completion of deferment eligibility, whichever is less.

You should always indicate on submitted forms your intention for continuance of deferment eligibility.

NOTE: All loans granted after 9/30/80 provide for an additional 6 months grace period after the completion of the deferment, except for hardship deferments on which interest continues to accrue.

C. *PARTIAL CANCELLATION PRIVILEGES*—The National Defense Education Act and subsequent amendments provide for partial cancellation of loans. Borrowers who perform certain service explained briefly below may qualify for cancellation benefits.

1) *Teaching Service*—A borrower must be employed as a full-time teacher for a complete academic year or its equivalent.

Allows cancellation at the rate of 10% of the total loan, plus interest thereon, for each year of teaching service up to a maximum of 50% when teaching service is performed in one of the following categories:

a. A public, private, or other nonprofit elementary or secondary school or institution of higher education in a State.

b. A federal elementary or secondary school operated by the Department of Interior or schools operated by the Department of Defense for military dependents.

NOTE: Cancellation eligibility for teaching service as described in (a) and (b) above was terminated for all loans made after June 30, 1972.

Allows cancellation at the rate of 15% per year on the total loan, plus interest thereon, to a maximum of 100% of the total loan for teaching service performed in one of the following categories:

a. Public or other nonprofit elementary or secondary school which has been determined by the Commissioner to be a "school with a high concentration of students from low-income families" listed yearly in the Federal Register. First academic year of eligibility was 1966-67.

b. Handicapped children in a public or other nonprofit elementary or secondary school system. First year of eligibility was academic year 1967-68.

NOTE: For loans after July 1, 1972, cancellation provisions are 15% for the first and second years, 20% for the third and fourth years, and 30% for the fifth year of service.

2) *Head Start* — Borrower must be full-time staff member:

On loans made before July 1, 1972, partial cancellation may apply.

If salary is comparable to local educational agencies, allows cancellation on loans made after June 30, 1972 at the rate of 15% per year on the total loan, plus interest thereon, to a maximum of 100% of the total loan.

3) *Military Service* — Borrowers entering the uniformed Armed Services for active duty may make application for partial cancellation of their loan. Governing provisions are shown below:

a. Borrowers with loans made between April 13, 1970 and June 30, 1972, may be eligible for partial cancellation at the rate of 12½% per year, up to a maximum of 50% of the loan, for each year of service after June 30, 1970.

b. For loans made after June 30, 1972, the borrower must be serving in an area of hostilities that qualifies for special pay under Section 310 of Title 37, U.S.C. to qualify for cancellation of up to 50% of the loan total at the rate of 12½% for each year.

4) *Death, Bankruptcy, Total Disability* — Provisions are for cancellation of the entire loan amount with the following evidence:

a. Death: Certificate of Death

b. Bankruptcy: Final Decree of Bankruptcy (Allowed only on loans which have been in repayment for at least 5 years)

c. Disability: Complete certification that the borrower has become totally disabled

OBLIGATIONS OF THE BORROWER

A. *NAME OR ADDRESS CHANGE* — You must promptly notify the Loan Receivables Division when you change your name or address.

B. *COMPLETION OF FORMS* — Forms need not be sent until you receive a bill. Properly completed and certified forms, when submitted by the due date shown on the bill, will generally void the bill. Send all forms and correspondence to:

C. *FINANCE CHARGES* — Interest begins to accrue on the unpaid balance of the loan upon completion of the grace period. The rate of interest is three percent (3%) on loans granted before 7/1/81, four percent (4%) on loans granted between 7/1/81 and 10/1/81, and five percent (5%) on loans granted after 9/30/81. This is an annual percentage rate calculated on the unpaid balance.

D. *TIMELY REMITTANCES* — You will be billed for each payment due. If you cannot make payment on time, you must contact the Loan Receivable Office (AC) prior to the payment due date.

SUBPART C - DUE DILIGENCE

§674.42 Due diligence.

Each institution must be diligent and forceful in collecting loans. In exercising this responsibility it must--

(a) Inform each borrower before he or she signs the note that he or she must repay the loan and apply the proceeds only to educational expenses;

(b) Conduct an exit interview with each borrower (described in §674.43) before he or she leaves the institution and, again, explain his or her obligation to repay the loan;

(c) In or before the exit interview--

(1) Give a copy of the signed promissory note and the repayment schedule to the borrower; and

(2) Have the borrower sign the schedule. A repayment schedule shows the borrower the total amount of his or her loan and states the repayment amount and the date each repayment is due;

(d) Keep a signed copy of the repayment schedule in the institution's files;

(e) Mail a copy of the note and two copies of the repayment schedule to a borrower who leaves the institution without notice, requesting that the borrower sign and return one of the schedules to the institution;

(f) Keep the borrower informed, on a timely basis, of all changes in the program that affect his/her rights or responsibilities; and

(g) Respond promptly to all inquiries from the borrower or any endorser.

§674.43 Contact with the borrower prior to repayment period.

(a) Information coordination. An institution must coordinate information among its offices, e.g. the registrar, student financial aid, business and alumni offices. Doing so will enable it to determine--

(1) When a borrower will graduate so an exit interview may be scheduled; or

(2) Whether a borrower has left the institution without notice so that required information may be mailed to him or her.

(b) Exit interview. An institution must, if possible, conduct an exit interview with each borrower before he or she leaves the institution. If an individual interview is not feasible, a group interview is permitted. During the interview the institution must tell the borrower again, as it did when the loan was made, that the borrower received a loan and the loan must be repaid in accordance with the repayment schedule. Furthermore, the institution must explain in detail the borrower's rights and obligations under the loan including the following:

(1) The borrower must inform the institution immediately of any address change.

(2) The full amount of the loan and the interest rate.

(3) The first repayment amount and when it is due.

(4) The borrower must contact the institution before the due date of any repayment he or she cannot make.

(5) His or her deferment, cancellation or postponement rights and the procedures for filing for these benefits.

(6) The right to prepay without penalty.

(7) The loan note's optional features such as minimum monthly repayment, penalty and collection charges.

(c) The institution's contact with the borrower. (1) For loans made on or before September 30, 1980, an institution must contact a borrower at least 3 times before the first repayment is due as follows:

SUBPART C - DUE DILIGENCE
Page 2

(i) 90 days into the grace period, the institution must send to the borrower the information in paragraph (b) plus other information necessary to satisfy Truth in Lending Act regulations.
(ii) 180 days into the grace period, the institution must notify the borrower of the date his or her grace period ends.
(iii) Approximately 30 days before the first repayment is due, the institution must notify the borrower of that repayment date and the amount due. (see §674.44(a)(1).)
(2) For loans made on or after October 1, 1980, an institution must contact a borrower at least 2 times before the first repayment is due as follows:
(i) 90 days into the grace period, the institution must send to the borrower the information in paragraph (b) plus other information necessary to satisfy Truth in Lending Act regulations.
(ii) Approximately 30 days before the first repayment is due, the institution must notify the borrower of that repayment date and the amount due. (see §674.44(a)(1).)
(d) Address search. If an institution discovers that a borrower's address has changed, it must conduct the search required under §674.44(a)(6) to find the correct address.

§674.44 Billing procedures.
(a) An institution must establish and maintain the following billing and follow-up procedures until all loans are repaid:
(1) Unless a coupon system is established, the institution must send to each borrower--
(i) A letter of notice and a statement of account at least 30 days before the first payment is due; and
(ii) A statement of account 10 days before the due date of each repayment after the first.
(2) An institution must contact a borrower and demand repayment if it has not received from the borrower within 15 days of a due date--
(i) A repayment;
(ii) A request for a deferment; or
(iii) A cancellation request form.
(3) An institution must demand repayment as follows:
(i) Within 15 days of a missed due date, the institution must contact the borrower by telephone or in writing to demand repayment (first overdue notice).
(ii) Within 30 days of the first overdue notice, it must contact the borrower again, by telephone or in writing, if there is no satisfactory response to the first notice (second overdue notice).
(iii) Within 15 days of the second overdue notice, if there is no satisfactory response, it must contact the borrower again--
(A) By telephone; or
(B) By Mailgram or similar written communication that demonstrates a response rate higher than that for routine mail (third overdue notice).
(iv) Within 15 days of the third overdue notice, it must send the borrower the final demand letter if there is no satisfactory response to the third overdue notice. In this letter the institution must inform the borrower that the loan will be referred for collection or litigation if repayment, or a proper form, is not received within 30 days of the letter's date.
(v) If an institution accelerates a loan (makes the entire unpaid amount, including accrued interest and penalty charges, payable immediately), it

SUBPART C - DUE DILIGENCE
Page 3

must give the borrower advance, written notice. The notice may be given separately or in the final demand letter.
(4) An institution may omit any or all the overdue notices before the final demand letter if--
(i) The borrower's repayment history has been unsatisfactory, e.g., the borrower has often failed to repay or file proper forms on time or has previously received a final demand letter; or
(ii) The institution believes the borrower does not intend to repay the loan or file the proper form.
(5) The institution must maintain a list of borrowers with overdue payments, updated monthly.
(6) If mail is returned, an institution must conduct a thorough search to locate the borrower's address, including--
(i) Checking records in all appropriate institutional offices;
(ii) Checking telephone directories or information operators in the location of the borrower's last known address;
(iii) Telephoning the borrower if a number is found; and
(iv) Using the Department of Education's free skip-tracing service.
(b)(1) The secretary considers billing and follow-up collection procedure costs (as required in paragraph (a)) to be routine administrative expenses that are NOT chargeable to the Fund.
(2) However, the costs of phone calls to the borrower are considered other collection costs that MAY be charged to the Fund.

§674.45 Address searches.
(a) An institution, unable to locate a borrower in spite of its efforts under §674.44(a)(6), must either--
(1) Hire a commercial skip-tracing organization; or
(2) Attempt to locate the borrower with its own personnel.
(b) If the institution locates the borrower, it must first try to collect the overdue amount before referring the loan for collection or litigation.

§674.46 Collection and litigation procedures.
(a) If an institution is still unable to collect a payment after following the procedures under §§674.44 and 674.45, it must telephone or personally contact the borrower to determine why the borrower has not paid. If this final contact falls to obtain payment, the institution must--
(1) Hire a collection agency;
(2) Sue the borrower; or
(3) Use its own personnel to collect the amount due.
(b) If the institution uses a collection agency, the agency must--
(1) Be bonded in an amount covering the part of the Fund under its control at any particular time; or
(2) Deposit the collection funds, immediately upon receipt, in a bank account in the institution's name--a "lock-box" deposit.
(c) If the institution is unable to collect a payment after following the procedures in sections 674.42-674.45 and paragraphs (a) and (b) of this section, it may refer the NDSL to the Secretary for collection.
(d)(1) An institution must sue a borrower or any proper endorser if collection efforts have failed and it determines that the borrower or endorser--
(i) Has assets that may cover all or most of the outstanding debts;
(ii) Has no known defense;
(iii) Can be located and easily served; and

SUBPART C - DUE DILIGENCE
Page 4

(iv) Owes more than $500.

(2) The institution may sue the borrower even if the conditions of subparagraph (c)(1) are not met.

(e) If the principal and interest outstanding on a loan are $10 or less, an institution may write it off.

§674.47 Other collection and litigation costs.

(a) The Secretary considers the reasonable costs of carrying out §§674.45(a) and 674.46 and telephone costs in §§674.44(a), 674.45(b), and 674.48(b) to be "other collection costs" chargeable to the Fund. Collection costs paid by the borrower are NOT chargeable to the Fund.

(b)(1) For audit purposes, an institution must support "other collection costs" with financial statements, e.g., phone and collection agency bills.

(2) A collection agency's statement must list specific amounts collected and the amount it retains.

(c)(1) If an institution performs its own collections, the Secretary considers the institution's actual collection costs, including salaries of its personnel, to be "other collection costs";

(2) However, these costs may not exceed the costs that would be permitted if the institution used a collection agency.

(d) An institution's reasonable litigation costs, incurred in carrying out this subpart, may be charged to the Fund.

§674.48 Use of fiscal agent.

(a)(1) An institution is responsible for all decisions in administering an NDSL program, e.g., decisions about collecting, cancelling, or deferring loans.

(2) A fiscal agent may perform only ministerial acts.

(b) A billing service used by an institution to carry out billing procedures under §674.44--

(1) May not deduct its fees from the amount it receives from borrowers;

(2) May telephone and perform skip-tracing activities to prevent a borrower from defaulting on a loan; and

(3) Must provide the institution with at least a monthly documentation of its charges for skip-tracing activities and telephone calls.

§674.49 Commonly owned billing service and collection agency.

If any institution uses a billing service to carry out §674.44 (billing procedures), it may not use a collection agency that--

(a) Owns or controls the billing service;

(b) Is owned or controlled by the billing service; or

(c) Is owned or controlled by the same corporation, partnership, association, or individual that owns or controls the billing service.

§674.50 Bankruptcy of borrower.

(a) An institution must refrain from carrying out this subpart on a loan which has been discharged in bankruptcy.

(b) An institution may not write off a loan until it has received an official notice of the bankruptcy discharge and must keep the notice in the borrower's file to support its writeoff entry.

(c) If an institution receives a repayment from a borrower after a loan has been discharged, it must deposit that payment in its Fund.

IRS SKIP-TRACING SUGGESTED TRANSMITTAL FORMAT

THE ACCOMPANYING MATERIAL IS INPUT TO THE NDSL SKIP-TRACE SYSTEM.

Information secured through the use of this service will be used in accordance with provisions of the Internal Revenue Code (26 U.S.C. 6103, 7213, 7217). This information is only for use by officers, employees, or agents of the institutions whose duties relate to the collection of student loans. The information is to be used solely to locate individuals who have defaulted on a National Defense/Direct Student Loan made by the institution in order to collect on the loan. Unauthorized disclosures of this information are unlawful, and individuals making unauthorized disclosures are subject to criminal or civil penalties.

The undersigned hereby accepts all responsibility for adherence to these provisions under penalty of law.

Authorizing Officials:_____

Date:_____

Number of Requests Submitted_____

School Number_____
(This number is the 4-digit Campus-Based Program serial number that appears on the institution's FISAP as the last 4 digits of the document number.)

Return Address: _____

_____

_____

_____

Point of Contact: Name_____

Address_____

_____

_____

Telephone_____

REQUEST FOR DEFERMENT OF REPAYMENT

PART I — TO BE COMPLETED BY BORROWER

ACCOUNT NUMBER — — — —	NAME AND ADDRESS OF LENDING INSTITUTION (INCLUDE ZIP CODE)
NAME (LAST, FIRST, INITIAL)	
ADDRESS (STREET, CITY, STATE & ZIP CODE)	

THIS IS TO CERTIFY THAT I HAVE BEEN: (CHECK APPROPRIATE ITEM)

- ☐ AT LEAST A HALF-TIME STUDENT
- ☐ ACTIVE DUTY IN ARMED FORCES
- ☐ PEACE CORPS
- ☐ VISTA
- ☐ OFFICER IN PUBLIC HEALTH SERVICE
- ☐ VOLUNTEER IN TAX-EXEMPT ORGANIZATION
- ☐ TEMPORARILY DISABLED
- ☐ INTERNSHIP

FROM (MONTH & YEAR)	TO (MONTH & YEAR)

I claim exemption from payment of principal and accrual of interest on my loan during the period indicated above. I agree to notify the lending institution immediately upon termination of my claimed status. Deferments are not given beyond the date of certification. Therefore:

☐ CHECK HERE IF YOU EXPECT TO BE ELIGIBLE FOR DEFERMENT AGAIN NEXT YEAR.
IF SO, THROUGH WHAT DATE _____ | _____
MONTH YEAR

SIGNATURE OF BORROWER	DATE

PART II — TO BE COMPLETED BY CERTIFYING AUTHORITY

I CERTIFY THAT THE INFORMATION STATED IN **PART I** ABOVE IS TRUE AND CORRECT. PERSON NAMED ABOVE WAS:

- ☐ ENROLLED AS AT LEAST A HALF-TIME STUDENT
- ☐ VOLUNTEER IN TAX-EXEMPT ORGANIZATION
- ☐ IN PEACE CORPS VOLUNTEER SERVICE
- ☐ AN OFFICER IN PUBLIC HEALTH SERVICE
- ☐ IN ARMED FORCES
- ☐ TEMPORARILY DISABLED
- ☐ IN VOLUNTEERS IN SERVICE TO AMERICA (VISTA)
- ☐ IN AN INTERNSHIP

SIGNATURE OF CERTIFYING OFFICIAL	DATE	OFFICIAL SEAL OR STAMP (If none, include signed letter of Certification)
NAME OF ORGANIZATION		
ADDRESS (CITY, STATE, & ZIP CODE)		

PART III — TO BE COMPLETED BY LENDING INSTITUTION

LENDING INSTITUTION ACTION		
☐ APPROVED	DATE	POSTPONEMENT ENDING
☐ DISAPPROVED	NAME OF OFFICIAL	NEXT PAYMENT DUE

RETURN TO:

1. **Complete and Submit in two copies.**

IMPORTANT:
IMPROPER COMPLETION OF THIS FORM
WILL CAUSE DELAYS IN THE PROCESSING
OF YOUR ACCOUNT

General Information For Deferment Eligibility

1. Periodic installments need not be made during any period while the borrower is: (a) Pursuing a half-time course of study at an accredited institution of higher education; (b) An active duty member of the Armed Forces of the United States; (c) A member of Peace Corps or Vista; (d) An officer in Public Health Service; (e) a full-time volunteer in a Tax-Exempt Organization; (f) In a temporary disability; (g) In an internship.

2. Military, Peace Corps, Vista, Public Health Service, Tax-Exempt Organizations, and temporary disability are allowed up to three years. Internship deferments are limited to two years.

3. If you received your loan after April 13, 1970 and are serving in the Armed Forces of the United States, you should contact this office for information about possible partial cancellation of your loan.

Instructions

1. If you receive a bill and are eligible for deferment, please submit completed deferment forms and return with your bill. Deferments are not processed for any period of time past the certification date. Forms must be submitted at least once annually and at the completion of the borrower's eligibility for deferment.

2. If you expect to be eligible for deferment beyond the date of certification, be sure to check (x) the appropriate section in PART I. Doing this will stop payment notices for the remainder of your eligibility period or one year, whichever is less. You will receive a bill at the end of that period. If you are eligible for deferment at that time, you need only submit the request for deferment. If you are ineligible, you must pay the amount indicated on that bill.

Exhibit NDSL-47

Physician's Affidavit of Temporary Total Disability

Under the National Direct Student Loan program, administered by the United States Department of Education, a borrower is entitled to have periodic installment payments of principal deferred for up to three years during which the borrower is temporarily totally disabled, or during which the borrower is unable to secure employment because he or she is caring for a spouse who is temporarily totally disabled. To qualify for this deferment, a borrower must provide the lender who issued the loan with an affidavit of a qualified physician, certifying the borrower's or the spouse's disability.

The following affidavits are for the purpose of establishing the eligibility of a National Direct Student Loan borrower to obtain a deferment for temporary total disability and are in a form acceptable to the United States Department of Education.

1. If the patient is a borrower of a National Direct Student Loan: I certify that, in my best professional judgment, my patient _____ is temporarily totally disabled as a result of illness or injury and is unable either to attend school or to be gainfully employed. The nature of this patient's illness is _____. The patient's temporary total disability began on _____. I anticipate that this patient will recover from this disability to the extent that he or she will be able either to attend school or to be gainfully employed by _____.

I am legally authorized to practice medicine/osteopathy in the State of _____. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

_____ _____

Signature of Physician (M.D. or D.O.) (Date)

- -

2. If the patient is the spouse of a National Direct Student Loan borrower: I certify that, in my best professional judgment, my patient _____, who is the spouse of _____ is temporarily totally disabled as a result of an illness or injury and is unable to be gainfully employed. In addition, this patient requires continuous nursing or other similar services. The nature of this patient's illness is _____. This patient's temporary total disability began on _____. I anticipate that this patient will recover from this disability to the extent that he or she will be able to be gainfully employed and will no longer require continuous nursing or other similar services by _____.

I am legally authorized to practice medicine/osteopathy in the State of _____. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

_____ _____

Signature of Physician (M.D. or D.O.) (Date)

REQUEST FOR PARTIAL CANCELLATION OF LOAN DUE TO TEACHING SERVICE

PART I — GENERAL AND CERTIFICATION OF TEACHING INFORMATION (TO BE COMPLETED BY BORROWER)

ACCOUNT NUMBER — — —	NAME AND ADDRESS OF LENDING INSTITUTION (City, State, and Zip Code)
NAME (LAST, FIRST, INITIAL)	
ADDRESS (STREET, CITY, STATE, ZIP CODE)	
NAME OF SCHOOL, NOT SCHOOL DISTRICT WHERE EMPLOYED	DESCRIPTION OF EXACT DUTIES (Attach sheet if necessary)

ACADEMIC YEAR → STARTING	MONTH	DAY	YEAR	ACADEMIC YEAR → TERMINATING	MONTH	DAY	YEAR

CHECK APPROPRIATE BOXES FOR FULL-TIME TEACHER CANCELLATION ENTITLEMENT BELOW

Loans Granted Prior to 7/1/72	Elementary School	Secondary School	Institution of Higher Education	10 Per Centum Rate	15 Per Centum Rate by Reason of Elementary and Secondary Schools Only	
Public					High Concentration of Students From Low Income Families	
Other Nonprofit					Teacher of the Handicapped	

Loans Granted After 6/30/72	Elementary School	Secondary School		
High Concentration of Students From Low Income Families			**Staff Member of Head Start**	
Teacher of the Handicapped				

I DECLARE that I was employed as a full-time teacher in a public or other nonprofit elementary or secondary school or institution of higher education in a state, or in an elementary or secondary school overseas of the Armed Forces of the United States, or as a full-time staff member of the Head Start Program for a complete academic year or its equivalent as stated. I request cancellation of the appropriate amount of principal and interest for such service in accordance with my entitlement under the law and in accordance with regulations and instructions issued by the U.S. Commissioner of Education.

☐ I DO INTEND TO TEACH DURING THE NEXT ACADEMIC YEAR _____ TO _____
☐ I DO NOT INTEND TO TEACH DURING THE NEXT ACADEMIC YEAR

SIGNATURE OF BORROWER	DATE

PART II — CERTIFICATION BY OFFICIAL OF SCHOOL IN WHICH BORROWER TAUGHT

I CERTIFY that the borrower's declaration as to his employment, the completion of his service, and the description of his duties is true and correct.

SCHOOL SYSTEM, DISTRICT, or INSTITUTION	SIGNATURE of AUTHORIZED OFFICIAL	OFFICIAL SEAL or STAMP (If none, include signed letter of Certification)
ADDRESS (City, County, State, Zip Code)	TITLE	
	DATE	

PART III — COMPLETED BY LENDING INSTITUTION

For Loans Received Prior To July 1, 1972

☐ Approved at 10 per centum rate ☐ Approved at 15 per centum rate

Loan Principal Cancelled	Interest Cancelled	Total Amount Cancelled	Balance Due
$	$	$	$

For Loans Received After July 1, 1972

☐ Approved at 15 per centum rate 1st & 2nd year ☐ Approved at 20 per centum rate 3rd & 4th year ☐ Approved at 30 per centum rate 5th year

Loan Principal Cancelled	Interest Cancelled	Total Amount Cancelled	Balance Due
$	$	$	$

☐ Disapproved indicate reason here

Months _____
Int. To _____
Year _____

Signature of Approving Official	Title	Date

Return forms to:

BEST COPY AVAILABLE

IMPORTANT:
IMPROPER COMPLETION OF THIS FORM
WILL CAUSE DELAYS IN THE PROCESSING
OF YOUR ACCOUNT

General Information For Teacher Cancellation Eligibility

1. You must be a full-time teacher.
2. Loans obtained prior to 7/1/72 may be cancelled at the rate of 10% per year for teaching one complete academic year (or its equivalent) in an accredited public or other non-profit elementary or secondary school or institution of higher learning. A borrower may have a maximum of five 10% partial cancellations. Or, you may cancel at the rate of 15% per year without restriction if:
   (a) teaching in a school with a high concentration of students from low-income families "as determined by the Commissioner of Education."
   (b) teaching handicapped children in a public or other non-profit elementary or secondary school system.
3. Loans obtained after 6/30/72 may be cancelled at the rate of 15% per year if you are employed as a full-time staff member in the Head Start Program, which is operated for a period comparable to a full school year in the locality. Or, you may receive cancellation for a complete academic year of full-time teaching in an accredited public or other non-profit elementary or secondary school at the rate of 15% for the first and second, 20% for the third and fourth, and 30% for the fifth year of service if you are:
   (a) teaching in an elementary or secondary school with a high concentration of students from low-income families "as determined by the Commissioner of Education."
   (b) teaching handicapped children in a public or other non-profit elementary or secondary school.
4. Partial cancellations are processed for prior periods only. Forms must be submitted at the completion of each teaching year for which the borrower requested partial cancellation. (Any two complete and successive half-years, not including summer sessions, or two complete semesters, trimesters or three complete quarters in a twelve-month duration constitutes an academic year.)

Instruction

1. If you are teaching and attending school, apply only for the teacher cancellation.
2. Insure that you have checked your intention to teach or not to teach in the next academic year on the adjoining forms. If you indicate you will teach, at the end of the academic year you will receive one billing for the entire year. If you are eligible for partial cancellation at that time, you need only submit the request for partial cancellation. If you are ineligible, you must pay the amount indicated on that bill.
3. If you indicated on the forms that you intended to teach, but do not teach, please contact _____ so we may proceed with normal billing.

BEST COPY AVAILABLE

DIRECTORY OF STATE EDUCATION AGENCIES

ALABAMA
Superintendent of Education
State Department of Education
501 Dexter Avenue
Montgomery, Alabama 36130
(205) 832-3316

ALASKA
Commissioner of Education
State Department of Education
Juneau, Alaska 99801
(907) 465-2800

AMERICAN SAMOA
Director of Education
Pago Pago, Tutila
American Samoa 96799
(Dial 9-0) 633-5237

ARIZONA
Superintendent of Public Instruction
Department of Education
1535 West Jefferson
Phoenix, Arizona 85007
(FTS) 8-765-4361

ARKANSAS
Director of Education
Department of Education
Arch Ford Education Building
Little Rock, Arkansas 72201
(501) 371-1464

BUREAU OF INDIAN AFFAIRS
Office of Indian Education Programs
Bureau of Indian Affairs
1951 Constitution Avenue, N.W.
Washington, D.C. 20242
(Postsecondary Education) 8-343-7387
(Elem. & Sec. Education) 8-343-7616

CALIFORNIA
Superintendent of Public Instruction
State Department of Education
721 Capitol Mall
Sacramento, California 95814
(FTS) 8-465-4338

COLORADO
Commissioner of Education
State Department of Education
201 East Colfax
Denver, Colorado 80203
(303) 839-2212

CONNECTICUT
Commissioner of Education
State Department of Education
165 Capitol Avenue
Post Office Box 2219
Hartford, Connecticut 06115
(FTS) 8-641-5061

DELAWARE
Superintendent of Public Instruction
State Department of Public Instruction
Townsend Building, P.O. Box 1402
Dover, Delaware 19901
(302) 678-4601

DISTRICT OF COLUMBIA
Superintendent of School
415 12th Street, N.W. Room 1209
Washington, D.C. 20004
(FTS) 8-724-4226

FLORIDA
Commissioner of Education
Florida Department of Education
W.V. Knott Building
Tallahassee, Florida 32301
(904) 487-1785

GEORGIA

Superintendent of Schools
State Department of Education
242 State Office Building
Atlanta, Georgia 30334
(404) 656-2800

GUAM

Director of Education
Department of Education
Agana, Guam 96910
(Dial 9-0) 777-8975

HAWAII

Superintendent of Education
Post Office Box 2360
Honolulu, Hawaii 96804
(808) 548-6405

IDAHO

Superintendent of Public Instruction
State Department of Education
Len B. Jordan Building
Boise, Idaho 83720
(FTS) 8-554-3300

ILLINOIS

State Superintendent of Education
Illinois Office of Education
100 North First Street
Springfield, Illinois 62777
(FTS) 8-956-2221

INDIANA

Department of Public Instruction
State House, Room 229
Indianapolis, Indiana 46204
(FTS) 8-336-6610

IOWA

Superintendent of Public Instruction
State Department of Public Instruction
Grimes State Office Building
Des Moines, Iowa 50319
(FTS) 8-515-281-5294

KANSAS

Commissioner of Education
State Department of Education
120 East Tenth Street
Topeka, Kansas 66612
(FTS) 8-757-3201

KENTUCKY

Superintendent of Public Instruction
State Department of Education
1718 Capitol Plaza Tower
Frankfort, Kentucky 40601
(502) 564-4770

LOUISIANA

Superintendent of Public Instruction
State Department of Education
Post Office Box 44064
Baton Rouge, Louisiana 70804
(FTS) 8-689-3602

MAINE

Commissioner
State Department of Educational
and Cultural Services
Education Building
State House Station-23
Augusta, Maine 04333
(FTS) 8-868-2321

MARYLAND

State Superintendent of Schools
State Department of Education
P.O. Box 8717, Baltimore-Washington
International Airport
Baltimore, Maryland 21240
(301) 796-8300, Ext. 200 and 201

MASSACHUSETTS

Commissioner of Education
State Department of Education
31 St. James Avenue
Boston, Massachusetts 02116
(FTS) 8-617-727-5700

MICHIGAN

Superintendent of Public Instruction
State Department of Education
Post Office Box 30008
Lansing, Michigan 48909
(FTS) 8-253-3354

MINNESOTA

Commissioner of Education
State Department of Education
Capitol Square, 550 Cedar Street
St. Paul, Minnesota 55101
(FTS) 8-776-2358

MISSISSIPPI

Superintendent of Public Instruction
State Department of Education
Post Office Box 771
Jackson, Mississippi 39205
(601) 354-6933

MISSOURI

Commissioner of Education
Department of Elementary and
Secondary Education
Box 480
Jefferson City, Missouri 65102
(314) 751-4446

MONTANA

Superintendent of Public Instruction
State Capitol
Helena, Montana 59601
(FTS) 8-587-3654

NEBRASKA

Commissioner of Education
State Department of Education
Post Office Box 94987
301 Centennial Mall South
Lincoln, Nebraska 68509
(FTS) 8-541-2465

NEVADA

Superintendent of Public Instruction
State Department of Education
400 West King Street
Capitol Complex
Carson City, Nevada 89710
(702) 885-5700, Ext. 202

NEW HAMPSHIRE

Commissioner of Education
410 State House Annex
Concord, New Hampshire 03301
(FTS) 8-842-3144

NEW JERSEY

Commissioner of Education
State Department of Education
225 West State Street
Trenton, New Jersey 08625
(FTS) 8-477-4450

NEW MEXICO

Superintendent of Public Instruction
State Department of Education
State Education Building
300 Don Gaspar Avenue
Santa Fe, New Mexico 87503
(FTS) 8-476-2282

NEW YORK

Commissioner of Education
State Education Department
Education Building
Washington Avenue
Albany, New York 12234
(518) 474-5844

NORTH CAROLINA

Superintendent of Public Instruction
State Department of Public Instruction
Raleigh, North Carolina 27611
(919) 733-3813

NORTH DAKOTA

Superintendent of Public Instruction
State Department of Public Instruction
State Capitol
Bismarck, North Dakota 58505
(701) 224-2260

OHIO

Superintendent of Public Instruction
State Department of Education
65 South Front Street, Room 808
Columbus, Ohio 43215
(FTS) 8-942-3304

OKLAHOMA

Superintendent of Public Instruction
State Department of Education
2500 North Lincoln
Oklahoma City, Oklahoma 73105
(405) 521-3351

OREGON

Superintendent of Public Instruction
Oregon Department of Education
700 Pringle Parkway
Salem, Oregon 97310
(FTS) 8-530-3573

PENNSYLVANIA

Secretary of Education
Department of Education
33 Market Street, 10th Floor
Post Office Box 911
Harrisburg, Pennsylvania 17126
(FTS) 8-637-5820

PUERTO RICO

Secretary of Education
Department of Education
Hato Rey, Puerto Rico 00924
(809) 765-3493

RHODE ISLAND

Commissioner of Education
Rhode Island Department of Education
199 Promenade Street
Providence, Rhode Island 02908
(401) 277-2031

SOUTH CAROLINA

Superintendent of Education
State Department of Education
106 Rutledge Building
1429 Senate Street
Columbia, South Carolina 29201
(803) 758-3403

SOUTH DAKOTA

Division of Elementary and
Secondary Education
Richard F. Kneip Building
Pierre, South Dakota 57501
(605) 773-3243

TENNESSEE

Commissioner of Education
State Department of Education
Cordell Hull Building, Room 100
Nashville, Tennessee 37219
(615) 741-2731

TEXAS

Commissioner of Education
Texas Education Agency
201 East 11th Street
Austin, Texas 78701
(512) 475-4536

UTAH

State Superintendent of Public Instruction
Utah State Board of Education
250 East, 500 South
Salt Lake City, Utah 84111
(801) 533-5431

VERMONT

Commissioner of Education
State Department of Education
State Office Building
Montpelier, Vermont 05602
(802) 828-3135

VIRGIN ISLANDS

Commissioner of Education
Department of Education
P.O. Box 630, Charlotte Amalie
St. Thomas, Virgin Islands 00801
(809) 774-2810, 774-0100, Ext. 202

VIRGINIA

Superintendent of Public Instruction
State Department of Education
Post Office Box 6Q
Richmond, Virginia 23216
(FTS) 8-936-2612

WASHINGTON

Superintendent of Public Instruction
Old Capitol Building
Olympia, Washington 98504
(FTS) 8-434-6717

WEST VIRGINIA

Superintendent of Schools
West Virginia Department of Education
1900 Washington Street
State Capitol
Charleston, West Virginia 25305
(FTS) 8-885-2681

WISCONSIN

Superintendent of Public Instruction
State Department of Public Instruction
126 Langdon Street
Madison, Wisconsin 53702
(FTS) 8-366-1771

WYOMING

State Superintendent of Public Instruction
State Department of Education
Hathaway Building
Cheyenne, Wyoming 82002
(FTS) 8-328-9673

REQUEST FOR PARTIAL CANCELLATION OF LOAN FOR MILITARY SERVICE
NATIONAL DEFENSE OR NATIONAL DIRECT STUDENT LOANS

PART I GENERAL INFORMATION (To be Completed by Borrower)

NAME OF BORROWER	NAME AND ADDRESS OF LENDING INSTITUTION (City, State, and Zip Code)
ADDRESS (Street, City, State, Zip Code)	
BRANCH OF ARMED FORCES / RANK AND SERIAL NUMBER	

INSTRUCTIONS: Check the appropriate box for partial cancellation of your loan. Return two (2) completed copies to each institution after one(1) full year's military service.

PART II REQUEST FOR CANCELLATION

☐ I declare I obtained my National Defense Loan between April 13, 1970 and June 30, 1972, and that I am eligible for partial cancellation at the rate of 12 1/2% per year for each complete consecutive year of active service performed after June 30, 1970.

☐ I declare I obtained my National Direct Loan after June 30, 1972 and that I qualify for partial cancellation at the rate of 12 1/2% per year for each complete consecutive year of active service performed in an area of hostilities that qualifies for special pay under Section 310 of Title 37, United States Code.

Dates of Service

From: _____

To: _____

PART III CERTIFICATION BY COMMANDING OR OTHER AUTHORIZED OFFICER

I CERTIFY that the Borrower's Declaration as to the Completion of his Military Service is true and correct.

The borrower (does) (does not) qualify for special pay under Sect. 310 of Title 37, U.S. Code.

SIGNATURE OF CERTIFYING OFFICER	BRANCH OF ARMED FORCES	OFFICIAL SEAL OR STAMP
RANK OR TITLE	DATE	
ADDRESS (Street, City, State, Zip Code)		

PART IV TO BE COMPLETED BY THE LENDING INSTITUTION

After Final Action Return One Copy to the Borrower and Retain One Copy

☐ CANCELLATION APPROVED

☐ CANCELLATION REQUEST DENIED

LOAN PRINCIPAL CANCELED	INTEREST CANCELED	TOTAL AMOUNT CANCELED	BALANCE DUE AFTER THIS TRANSACTION
$	$	$	$

IF REQUEST IS DENIED INDICATE REASON HERE

SIGNATURE OF APPROVING OFFICIAL	TITLE	DATE

O 8637

Exhibit NDSL-51 181

Medical Report

NOTICE TO PHYSICIAN: The Federal Student Loan programs provide for cancellation of the loans in the event the borrower becomes permanently and totally disabled. This means the inability to work and earn money because of an impairment that is expected to continue indefinitely or result in death. A determination cannot be made by us until this form has been completed and returned.

Name of Claimant *(Last, First, Middle)*	Social Security No.	Date of Birth *(Month, Day, Year)*

Sex ☐ Male ☐ Female	Address of Claimant *(Number, Street, City, State, and ZIP Code)*

1. HISTORY	A. When Did Present Illness or Injury Start?	B. Date Applicant Became Unable to Work

C. Is There A Previous History of This Illness? ☐ Yes ☐ No *(If "Yes" describe)*

2. PRESENT CONDITION—ALL MAJOR IMPAIRMENTS — A. Subjective Symptoms

B. Objective Findings *(Give report of X-rays, ECG's, laboratory or diagnostic tests, WITH DATES.)*

C. Applicant is ☐ Ambulatory ☐ Bed Confined ☐ House Confined ☐ Hospital Confined *(Provide any pertinent comments)*

3. DIAGNOSIS

4. TREATMENT — A. Therapy and Response

B. Date of First Visit	C. Date of Last Visit	D. Frequency of Visits	E. When Did You Last Examine Claimant?

In my opinion, this patient ☐ is/☐ is not totally and permanently disabled.

Typed or Printed Name and Address of Physician or Organization *(Street, City, State, and ZIP Code)*	Signature Title Date

BEST COPY AVAILABLE

Exhibit NDSL-52

Account No. _____

NATIONAL DEFENSE STUDENT LOAN

Request for Postponement of Repayment Because of Teaching, Student, Armed Forces, Peace Corps, or Vista Status

Name of Borrower	Name and Address of Lending Institution (City, State, Zip Code)
Address (Street, City, State, Zip Code)	

INSTRUCTIONS

At the time the scheduled repayment falls due, the borrower should forward one copy of this form to each institution to which he is obligated to make repayment of a National Defense Student Loan. This form will allow the institution to postpone payments until the completion of such status, at which time a deferment or cancellation form will be required.

Part I — To be completed by the borrower only.

Part II — To be completed by the appropriate official in the school or institution of higher education in which the borrower is teaching, or by the registrar, commanding officer, or official of Peace Corps or VISTA.

The completed form is to be mailed by the certifying official directly to the fiscal officer of the institution from which the loan was secured.

NOTE: No postponement action is possible until this form reaches the lending institution.

Part I - Request for Suspension of Payment

I declare that my status will be as I have checked below. I further declare that I expect to remain in that status for the time shown, and that I will claim deferment or cancellation at the end of the postponed time. I further understand and agree that if, for any reason, whether through my own doing or because of events beyond my control, I do not complete the status for the time shown, I will immediately begin payment of my loan principal and interest, including those payments which were postponed.

This is to certify that I will be: (check appropriate item)

Pursuing at least a half-time course of study in an institution of higher education		From (month and year)	To (month and year)
A member of the Armed Forces	Serial Number	From (month and year)	To (month and year)
In Peace Corps Volunteer Service		From (month and year)	To (month and year)
In Volunteer In Service To America (VISTA)		From (month and year)	To (month and year)
A full time teacher in an accredited elementary, secondary or school of higher education		From (month and year)	To (month and year)

Signature of Borrower _____ Date _____

Part II - Certification of Status

I certify that the information stated in Part I above is true and correct. Person named above is:

Enrolled as at least a half-time student — In Armed Forces

In Peace Corps Volunteer Service — In Volunteers In Service to America (VISTA)

A full time teacher

Signature (Registrar, Commanding Officer, Peace Corps Officer or VISTA officer) or school official where teaching is being performed _____ Date _____

Institution of higher education, military organization, Peace Corps Headquarters, VISTA Headquarters, or school system in which the borrower is teaching _____ Official Seal or Stamp

Address (city, state, and zip code)

BEST COPY AVAILABLE

NATIONAL DIRECT (DEFENSE) STUDENT LOAN PROGRAM
ASSIGNMENT FORM

The borrower named below was issued a National Defense/Direct Student Loan(s) authorized under Section 464, 20 U.S.C. 1087 dd. of Title IV, Part E, of the Higher Education Act of 1965 as amended. This loan is now in default despite due diligence on the part of the institution. Therefore, the institution may assign its rights under such note or agreement to the United States Government, without recompense, as provided under Section 463(a)(5), 20 U.S.C. 1087cc.

SECTION A – INSTITUTIONAL CERTIFICATION SECTION

1. FULL INSTITUTION NAME		5. SERIAL IDENTIFICATION NUMBER
2. FULL STREET ADDRESS OF INSTITUTION		6. ENTITY NUMBER (EIN)
3. CITY	4. STATE	7. ZIPCODE
8. TYPED NAME OF AUTHORIZING OFFICIAL	9. CERTIFICATION DATE (MM/DD/YY)	10. SIGNATURE AUTH. OFFICIAL
11. TYPED TITLE OF AUTHORIZING OFFICIAL	12. TELE. NUMBER ( )	13. ALTERNATE CONTACT

SECTION B – BORROWER INFORMATION SECTION

14. CURRENT OR LAST KNOWN NAME (LAST, FIRST, MIDDLE)	15. PREVIOUS NAME(S) (MAIDEN, LEGAL CHANGE, ETC.)	
16. SOCIAL SECURITY NUMBER	17. BIRTH DATE (MM/DD/YY)	18. DEPARTURE DATE (MM/DD/YY)
19. CURRENT ADDRESS OR LAST KNOWN PERMANENT ADDRESS (NUMBER AND STREET)		22. TELE. NUMBER (AREA CODE) ( )
20. CITY	21. STATE	23. ZIPCODE
24. PREVIOUS ADDRESS(ES) OF BORROWER (NUMBER AND STREET)		27. TELE. NUMBER (AREA CODE) ( )
25. CITY	26. STATE	28. ZIPCODE
29. NAME AND ADDRESS OF ENDORSER OF LOAN (SHOW FULL NAME AS LAST, FIRST, MIDDLE) IF APPLICABLE		33. TELE. NUMBER (AREA CODE) ( )
30. NUMBER AND STREET OF ENDORSER		34. ZIPCODE
31. CITY	32. STATE	

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form in the course of assigning this defaulted loan to the United States Government, may be subject to a fine of up to $10,000 or imprisonment of up to five (5) years or both under provisions of the United States Criminal Code. To include 18 U.S.C. 1001.

ED FORM 553 7/81

U.S. Department of Education Regional Offices

Region I (Boston)	
Connecticut Maine Massachusetts New Hampshire Rhode Island Vermont	Department of Education Office of Student Financial Assistance P.O. Box 9148 Boston, Massachusetts 02114
Region II (New York)	
New Jersey New York Puerto Rico Virgin Islands Panama Canal Zone	Department of Education Office of Student Financial Assistance 252 Seventh Avenue - Suite 11R New York, New York 10001
Region III (Philadelphia)	
Delaware District of Columbia Maryland Pennsylvania Virginia West Virginia	Department of Education Office of Student Financial Assistance 3535 Market Street Philadelphia, Pennsylvania 19101
Region IV (Atlanta)	
Alabama Florida Georgia Kentucky Mississippi North Carolina South Carolina Tennessee	Department of Education Office of Student Financial Assistance P.O. Box 1687 Atlanta, Georgia 30301
Region V (Chicago)	
Illinois Indiana Michigan Minnesota Ohio Wisconsin	Department of Education Office of Student Financial Assistance 12th Floor 300 South Wacker Drive Chicago, Illinois 60606
Region VI (Dallas)	
Arkansas Louisiana New Mexico Oklahoma Texas	Department of Education Office of Student Financial Assistance 1200 Main Tower Building Dallas, Texas 75202
Region VII (Kansas City)	
Iowa Kansas Missouri Nebraska	Department of Education Office of Student Financial Assistance 324 East 11th Street - 19th Floor Kansas City, Missouri 64106
Region VIII (Denver)	
Colorado Montana North Dakota South Dakota Utah Wyoming	Department of Education Office of Student Financial Assistance 1961 Stout Street - 3rd Floor P.O. Box 3548 Denver, Colorado 80294
Region IX (San Francisco)	
Arizona California Hawaii Nevada American Samoa Guam Trust Territory of the Pacific Islands Wake Island	Department of Education Office of Student Financial Assistance 50 United Nations Plaza Room 229 San Francisco, California 94102
Region X (Seattle)	
Alaska Idaho Oregon Washington	Department of Education Office of Student Financial Assistance 1321 Second Avenue, M.S. 136 Seattle, Washington 98101

Appendix III: HPSL/NSL Forms, Letters, and Other Documents

HEALTH PROFESSIONS LOANS—LEGISLATIVE CHANGES

The Health Professions Student Loan Program was authorized by the Health Professions Educational Assistance Act of 1963 (P.L. 88-129), enacted September 24, 1963. The law established Title VII of the Public Health Service Act of which Part C authorized student assistance programs. The following legislative history outlines the statute and date of enactment of major changes in the Program:

P.L. 88-129 — Health Professions Educational Assistance Act of 1963
September 24, 1963

1. Established the Health Professions Student Loan Program to make funds available to students in schools of medicine, dentistry, and osteopathy.

P.L. 88-654
October 13, 1964

1. Amended the program to include qualified schools and students of optometry.

P.L. 89-290 — Health Professions Educational Assistance Amendments of 1965
October 22, 1965

1. Amended the program to add a forgiveness provision permitting borrowers practicing medicine, dentistry, optometry, or osteopathy in a designated shortage area to cancel up to 50% of their loans at a rate of 10% per year for each year of practice;
2. Authorized appropriations for making loans to institutions to help finance matching fund requirements to Federal Capital Contributions;
3. Included qualified schools and students of pharmacy and podiatry effective July 1, 1966.

P.L. 89-709
November 2, 1966

1. Amended the program to include qualified schools and students of veterinary medicine.

P.L. 89-751 — Allied Health Professions Personnel Training Act of 1966
November 3, 1966

1. Established the Federal Capital Loan (FCL) revolving loan program;
2. Amended the program to add a forgiveness provision which permits borrowers who practice medicine, dentistry, optometry, or osteopathy in a designated shortage area which is rural and characterized by low family income to cancel up to 100% of their loans at the rate of 15% per year for each year of practice in such area.

P.L. 90-490 — Health Manpower Act of 1968
August 16, 1968

1. Amended the loan program to reduce the grace period from three years to one year;
2. Postponed the repayment period, for up to five years, for advanced professional training, including internships and residencies;
3. Provided a uniform three percent (3%) interest rate on all loans made after June 30, 1969;

4. Permitted schools to assess borrowers a penalty charge for failure to pay all or any part of loan installment when due, or for failure to file timely notification of entitlement to cancellation or postponement of repayments;
5. Permitted a school to transfer to its Health Professions Scholarship account up to 20% (or a higher percentage with approval of the Secretary) of Federal Capital Contributions paid to a school's Health Professions Student Loan Fund in any fiscal year.

P.L. 92-52
July 9, 1971

1. Extended the programs through fiscal year 1972.

P.L. 92-157 — Comprehensive Health Manpower Training Act of 1971
November 18, 1971

1. Extended the programs and authorized funds necessary for phase out;
2. Amended the cancellation provisions to repay up to 85% of any professional education loans for three years of practice in a shortage area;
3. Added a provision for repayment of loans to certain students from low-income or disadvantaged families who fail to complete their professional studies;
4. Added a provision for unlimited deferment for advanced professional training for loans incurred after November 18, 1971.

P.L. 93-385
August 23, 1974

1. Amended the program to extend it through FY 1975.

P.L. 94-484 — Health Professions Educational Assistance Act of 1976
October 12, 1976

1. Extended health manpower training authorities through fiscal year 1980;
2. Established that students of medicine and osteopathy graduating after June 30, 1979 must have "exceptional financial need" to qualify for loans;
3. Limited the maximum amount a student may borrow to cost of tuition plus $2,500.00;
4. Changed the interest rate from 3 percent (3%) to 7 percent (7%) to be effective Oct. 1, 1977;
5. Modified the loan repayment program to apply only to Health Professions Student Loans;
6. Removed prohibition of health professions students from receiving a National Direct Student Loan;
7. Required that every institution participating in the program must provide for an annual audit of records.

P.L. 95-83 — Health Services Extension Act of 1977
August 1, 1977

1. Amended the Act so repayment of other educational loans under the loan repayment program is authorized only if the loan was obtained before October 12, 1976.

P.L. 95-623 — Health Services Research, Health Statistics and Health Care Technology Act of 1978
December 19, 1977
November 9, 1978

1. Amended the Act such that every institution provide for an audit on a biennial basis.

Federal Register Vol. 44, No. 147 — Health Professions
July 30, 1979 (Regulations—Not a Legislative Change)

1. Notice of phase-out of loan repayment program for serving in shortage area.

P.L. 97-35 — Omnibus Budget
August 13, 1981 — Reconciliation Act of 1981

1. Changes interest rate from 7% to 9%.

Federal Register Vol. 48, No. 108 — Health Professions
June 3, 1983 (Regulations—Not a Legislative Change).

1. Schools must maintain delinquency rates no higher than 5%;
2. Accounts overdue by more than 60 days must be considered delinquent;
3. Only loans currently in repayment status are used in calculating rate;
4. Institutions must become members of credit bureaus. Cost chargeable to the fund;
5. Institutions must report loans 120 days or more past due to credit bureaus;
6. Repayment at least quarterly;
7. Accounts 60 days or more past due must repay monthly;
8. Promissory notes must contain an acceleration clause;
9. Use of collection agency required; internal collection agencies may be used;
10. Institutions must sue when appropriate; and
11. Financial aid transcripts required.

NURSING STUDENT LOANS—LEGISLATIVE CHANGES

The Nursing Student Loan Program was authorized by the Nurse Training Act of 1964 (P.L. 88-581), enacted September 4, 1964. This Act established Part B of Title VIII of the Public Health Service Act to provide for the establishment and operation of student loan funds at nursing schools. The following legislative history outlines the statute and date of enactment of major changes in the program:

P.L. 88-581 — Nurse Training Act of 1964
September 4, 1964

1. Established the Nursing Student Loan Program;
2. Provided cancellation up to 50 percent of loan for service as a full-time professional nurse;
3. Deferred repayments while pursuing full-time study at a collegiate school of nursing.

P.L. 89-290 — Health Professions Educational Assistance Amendments of 1965
October 22, 1965

1. Established a uniform interest rate for all loans made to a student from one loan fund;
2. Authorized the Commissioner of Education to accredit programs of nursing education for the purpose of the Act.

P.L. 89-751 — Allied Health Professions Personnel Training Act of 1966
November 3, 1966

1. Provided a mechanism (revolving fund) for lending schools all or part of the capital required to establish and operate their Nursing Student Loan Funds;
2. Deleted authority for loans to schools for matching funds to Federal Capital Contributions.

P.L. 90-490 — Health Manpower Act of 1968
August 16, 1968

1. Revised eligibility criterion applicable to accreditation to mean a program of nursing education accredited by a state agency, as well as by a recognized body or bodies, approved for such purpose by the Commissioner of Education;
2. Extended prohibition of concurrent loan under National Defense Education Act of 1958 to all students receiving Nursing Student Loans who attend lending schools prior to July 1, 1971;
3. Reduced the grace period from one year to nine months;
4. Deferred repayment period for up to three years, for active duty as a member of a uniformed service, or as a volunteer under the Peace Corps Act; and for up to five years, while borrower is pursuing full-time course of study at a collegiate school of nursing pursuing advanced professional training in nursing;
5. Added a cancellation provision which permits borrower to cancel up to 100 percent of loan, plus interest, for full-time employment as a professional nurse in a hospital in an area determined to have a substantial shortage of nurses;
6. Provided a uniform three percent interest rate on all loans made after June 30, 1969;

7. Permitted schools to assess borrowers a penalty charge for failure to pay a loan installment when due or for failure to file timely notification of entitlement to cancellation or postponement of repayment;
8. Provided for deposit to Federal Capital Contribution Fund all collections of such penalty charges;
9. Permitted schools to provide for repayment of principal and interest at a rate equal to not less than $15.00 per month;
10. Permitted a school to transfer to its Nursing Scholarship account up to 20 percent (or higher percentage with approval of the Secretary) of Federal Capital Contributions paid to a school's Nursing Student Loan Fund in any fiscal year;
11. Revised statutory formula for allocating funds to schools.

P.L. 92-158 — Nurse Training Act of 1971
November 18, 1971

1. Extended the programs and authorized necessary funds for phase-out;
2. Raised the loan ceiling to $2,500 a year (aggregate of $10,000);
3. Provided for cancellation of up to 85 percent of nursing loans plus interest over a five-year period;
4. Retained previous loan cancellation provisions for loans prior to November 18, 1971;
5. Extended authority to half-time students;
6. Added repayment provisions to repay up to 85 percent of any professional education loans for serving three years in a shortage area;
7. Added a provision for repayment of loans to certain students from low-income or disadvantaged families who fail to complete their professional studies.

P.L. 94-63 — Nurse Training Act of 1975
July 29, 1975

1. Repealed the Student Loan Revolving Fund (FCL) except to honor existing commitments;
2. Added training to be a nurse anesthetist for deferments of loan repayment.

P.L. 96-76 — Nurse Training
September 29, 1979 — Amendments of 1979

1. Repealed the cancellation benefits on all loans committed after date of enactment of the law.

P.L. 97-35 — Omnibus Budget
August 13, 1981 — Reconciliation Act of 1981

1. Allows nursing students to receive National Direct Loans;
2. Increases interest rate from 3 percent to 6 percent.

Federal Register Vol. 47. No. 225 — Nursing Student Loans
November 22, 1982 (Regulations—Not a Legislative Change)

1. Notice of discontinuation of the acceptance of applications for repayment of loans in return for service in shortage area.

BEST COPY AVAILABLE

Exhibit HPSL/NSL-57

NURSING/HEALTH PROFESSIONS STUDENT LOANS

STATEMENT OF RIGHTS AND RESPONSIBILITIES

A Nursing or Health Professions Student Loan is a serious legal obligation. Therefore, it is extremely important that you understand your rights and responsibilities. When you, the student borrower sign this statement it means that you do understand your responsibilities and you agree to honor them.

1. I understand that I must, without exception, report any of the following changes to: _____ _____.

   (a) If I withdraw from school.
   (b) If my address, or my parents' address changes.
   (c) If I drop below full-time status. (Half-time for Nursing)
   (d) If my name should change (for example, because of marriage).
   (e) If I transfer to another school.
   (f) If I join the military service or Peace Corps.

2. I understand that when I graduate or withdraw from _____, I must arrange for an exit interview by calling _____.

3. I understand that my first _____ payment will be due _____ months from the time I cease to be a full-time (half-time for nursing) student.

4. I understand that my minimum _____ payment will be at least $_____. It may be more if the amount borrowed is sufficient to require larger payments.

5. I understand that the ANNUAL PERCENTAGE RATE shown below will be charged on the unpaid balance and that it will begin to accrue 12 months (9 months for nursing) after I cease to be enrolled as a full-time student (half-time for nursing).

6. I understand that cancellation may be granted for practice in certain areas; for special conditions according to the terms shown on my loan note; and in the event of death or permanent disability. I also understand the school must be informed of such status.

7. I understand that if I enter the military service or Peace Corps, or pursue advanced professional training, I may request that the payments on my Loan be deferred.

8. I understand that if I fail to repay my loan as agreed, the total loan my become due and payable immediately and legal action could be taken against me.

9. I understand that I must promptly answer any communication regarding my loan.

10. I understand that if I cannot make payment on time, I must contact _____.

11. I authorize _____ to contact any school which I may attend, to obtain information concerning my student status, my year of study, my dates of attendance, graduation, or withdrawal, my transfer to another school, or my current address.

12. I authorize _____ to report this loan to credit reporting bureaus.

ANNUAL PERCENTAGE RATE	Amount Financed	Late Charge: If payment is late you may be charged $1 for first month, $2 for subsequent months.
The cost of your credit as a yearly rate.	The amount of credit provided to you.	Prepayment: If you pay off early, you will not have to pay a penalty.
Prior to Repayment _____ / During Repayment _____	$_____	See the promissory note for any additional information about nonpayment, default, and any required repayment in full before the scheduled date.

I understand I have a right to request an itemization of the amount financed. I do ___, do not ___ request an itemization.
I have received a copy of this statement:

_____ DATE

_____ SIGNATURE OF STUDENT

_____ STUDENT NUMBER

BEST COPY AVAILABLE

EXIT INTERVIEW/TRUTH-IN-LENDING
REPAYMENT SCHEDULE

_____ Nursing

_____ Health Professions

Name (Mr.) (Mrs.) (Ms.) _____ _____ _____
Last First Middle

Home Address _____
No. and Street City State Zip Code

Phone Number (___) _____

The student loans which you received and which are checked above, are repayable in accordance with this repayment schedule. With your leaving _____ on _____, your FINANCE CHARGE will begin to accrue on _____.

The AMOUNT FINANCED, as shown below, is to be repaid in _____ payments of $_____ each. Statements will be sent approximately twenty (20) days before each payment is due.

The AMOUNT FINANCED is repayable in accordance with this repayment schedule, and is subject to provisions relating to DELINQUENCY and DEFAULT CHARGES specified in your promissory note(s). These may include a penalty charge for late payment or submission of forms, and the possibility that the total unpaid balance, including interest due, shall become due and payable immediately. Collection agencies will be used on loans which become more than 75 days past due.

The brochure which is being provided at this time covers deferment and cancellation provisions of your loan. Please become familiar with the terms.

Notification of name or address changes must be made to the _____ Loan Receivables Division. Checks should be payable to "_____" and mailed to: _____.

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	Amount Financed	Total of Payments
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you or on your behalf.	The amount you will have paid if you make all payments as scheduled.
_____%	$_____	$_____	$_____

See the promissory note for any additional information about non-payment, default, and any required repayment in full before the scheduled date.

Your payment schedule will be:

Number of Payments _____ Amount of Payment $_____ Payments Begin _____

Late Charge: If a payment is late, you may be charged _____.
Prepayment: If you pay off early, you will not have any penalty.

Itemization: $_____ Amount given to you directly.
$_____ Amount paid to the institution on your behalf.

I have receive a copy of this statement.

_____
Signature

BEST COPY AVAILABLE

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES AND SERVICES ADMINISTRATION
Bureau of Health Professions
5600 Fishers Lane
Rockville, Maryland 20857

HEALTH PROFESSIONS STUDENT LOAN PROGRAM
PROMISSORY NOTE
FOR LOANS AWARDED ON OR AFTER

June 3, 1983

I, _____, hereinafter called the Borrower, promise to pay

to _____, hereinafter called the Institution located
(Name of Institution)

at _____, the sum of such amounts as may from time to time be advanced
(City and State)

to me and endorsed in the Schedule of Advances below with interest at the rate of Nine(9) percent per annum together with all attorney's fees and related costs and charges for the collection of any amount not paid when in default according to the terms of this note.

SCHEDULE OF ADVANCES

NUMBER	AMOUNT ADVANCED	TOTAL TO DATE	DATE	SIGNATURE OF BORROWER
1				
2				
3				
4				
5				
6				
7				
8				
9				

The Borrower and the Institution further understand and agree that:

1. *Consolidation:* If the Institution makes more than one loan to the Borrower under the Health Professions Student Loan program, as in effect on June 3, 1983, the sum of the amounts advanced to the Borrower shall be consolidated for purposes of repayment. Each payment made by the Borrower to the Institution shall be applied to the principal sum of the total loan and to interest which has accrued on the unpaid balance.

2. *Repayment:*
   a. Repayment shall be made in equal or graduated periodic installments over a ten-year repayment period, except that the Institution may require repayment to be made in an amount equal to not less than $15 per month. The ten-year repayment period begins one year after the Borrower ceases to be a full-time student at a school eligible to participate in the Health Professions Student Loan program. Periods of authorized deferment are not included as part of the ten-year repayment period.
   b. The terms and conditions of repayment shall be set forth in a separate repayment schedule which is approved by the Institution and agreed to by the Borrower. Payments under the repayment schedule shall be made no less often than quarterly, except that if the Borrower is more than 60 days past due on a payment, the remaining balance of the loan shall be repaid on a monthly basis.

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3. *Interest:* Interest shall accrue from the beginning of the repayment period.

4. *Deferment:* Periodic installments of principal and interest need not be paid, and interest shall not accrue, while the Borrower:
   a. serves on active duty as a member of a uniformed service of the United States, for up to three years;
   b. serves as a volunteer under the Peace Corps Act, for up to three years; and
   c. pursues advanced professional training, including internships and residencies.

5. *Prepayment:* The Borrower may, at his or her option and without penalty, prepay all or any part of the principal and accrued interest at any time.

6. *Late Charge:* The Institution may assess a late penalty charge for failure of the Borrower to pay all or any part of an installment when it is due, or for failure to file timely and satisfactory evidence of entitlement to deferment or cancellation of part or all of the loan, if so entitled, at the rate of $1 for the first month or part of a month by which the installment is late, and $2 for each subsequent month or part of a month.

7. *Acceleration:* If the Borrower fails to make a scheduled repayment, the entire unpaid balance of the loan, including interest due and accrued and any applicable penalty charges, will, at the option of the Institution, become immediately due and payable.

8. *Credit Bureaus:* If the Borrower is more than 120 days past due in making a scheduled repayment, the Institution will disclose the Borrower's delinquent status, and any other relevant information, to credit bureaus.

9. *Death or Disability:* In the event of the Borrower's total and permanent disability or death, the unpaid indebtedness remaining on the Note shall be canceled.

10. *Repayment by the Secretary of Health and Human Services:*
    a. At the option of the Secretary, the Borrower and the Secretary will enter into a special contract to have this loan partially repaid by the Secretary for service by the Borrower for at least two years in a health manpower shortage area, as identified by the Secretary. This contract will be offered only if Federal funds are available for this purpose.
    b. Subject to the availability of funds, and upon application by the Borrower, the Secretary may repay without liability to the Borrower all or any part of the Borrower's loan under this Note which is outstanding on the date the Secretary determines, according to applicable Federal regulations, that the Borrower:
       (1) failed to complete the course of study leading to his/her first professional degree for which such loan was made;
       (2) is in exceptionally needy circumstances;
       (3) is from a low-income or disadvantaged family; and
       (4) has not resumed, or cannot reasonably be expected to resume the study of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, pharmacy, or podiatry within a period of two years following the date upon which the Borrower ceased to pursue the course of study for which the loan was made.

11. *General:* The Borrower will promptly inform the Institution of any change in name or address after he or she ceases to be a full-time student at the Institution. The terms of this Note shall be construed according to the Federal statute (42 U.S.C. 294m—294q) and regulations (42 CFR section 57.200 et. seq.) governing the administration of the Health Professions Student Loan program, copies of which shall be kept by the Institution.

_____ _____

(DATE) *(SIGNATURE OF BORROWER)*

NOTICE This note shall be executed without security and without endorsement, except that, if the Borrower is a minor and this Note would not, under State law, create a binding obligation, either security or endorsement may be required. The payee shall supply a copy of this Note to the Borrower.

HRSA-610 (BACK)
Rev. 3/83

DI-ASC-F1

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CERTIFICATION OF DEFERMENT STATUS

HEALTH PROFESSIONS AND NURSING STUDENT LOAN PROGRAMS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES AND SERVICES ADMINISTRATION
Bureau of Health Professions
Parklawn Building
5600 Fishers Lane
Rockville, Maryland 20857

INSTRUCTIONS

NOTE: You as a borrower of a Health Professions or Nursing Student Loan are responsible for the completion and return of this form to the institution from which you received loans. You should request immediate completion by the official authorizing your status in deferment. Failure to return this form to your lending institution on a timely basis will result in your being placed in delinquent status.

To request deferment of repayment on your Health Professions or Nursing Student Loan, two (2) copies of a Certification of Deferment Status form (HRSA-519) must be filed with the school which made the loan at each of the following times: (1) when your first repayment installment is due, (2) annually thereafter as long as you are eligible for such deferment, and (3) when you cease to be in eligible deferment status. A copy of the form, properly executed, as submitted to the school, should be retained for your own record.

NOTE: Provisions governing deferment of Health Professions and Nursing Student Loans vary according to the date such loans were made; therefore, you should read the *Guide for repayment, deferment and cancellation of Health Professions or Nursing Student Loans* for the specific provisions applicable to your loans before completing this form. The Guides are available from the school which made the loan.

NAME AND ADDRESS OF SCHOOL FROM WHICH LOAN WAS MADE	NAME AND ADDRESS OF BORROWER

PART I - REQUEST FOR DEFERMENT OF REPAYMENT — *To be completed by borrower if he:*

A. Ceases to pursue the course of study at

1. A school of medicine, osteopathy, dentistry, pharmacy, podiatry, optometry, or veterinary medicine, but re-enters the same or another such school within the applicable grace period;
2. A school of nursng leading to a diploma or associate degree in nursing, a baccalaureate degree in nursing or an equivalent degree, or to a graduate degree in nursing, but re-renters the same or another such school within the applicable grace period.

This is to certify that I was a full-time health professions or nursing student (or at least half-time nursing student for borrowers who received nursing student loans after November 17, 1971) at _____

_____ from _____ to _____

pursuing a course of study leading to a _____.

(Degree)

B. Performs active duty as a member of a uniformed service or as a volunteer under the Peace Corps Act.

This is to certify that I was in the _____

(Enter name of Service or Peace Corps)

from _____ to _____.

HRSA-519
(REV. 9-82)

FORM APPROVED:
O.M.B No. 0915-0044

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C. 1. Pursues advanced professional training, including internships and residencies; or
2. Pursues a full-time course of study at a collegiate school of nursing leading to a baccalaureate degree in nursing or an equivalent degree, or to a graduate degree in nursing, or is otherwise pursuing advanced professional training in nursing.

This is to certify that I was pursuing advanced professional training at _____ from _____ to _____.

D. Pursues training as a nurse anesthetist. from _____ to _____

I claim deferment of repayment of principal and interest on my *(Check appropriate box)*

Health Professions Student Loan ☐ (or) Nursing Student Loan ☐

for the period indicated under A.1. ☐, A.2. ☐, B. ☐, C.1. ☐, C.2. ☐, (or) D. ☐ above.

I further agree to notify the school from which I received assistance immediately upon termination of my status as indicated above.

DATE	SIGNATURE OF BORROWER

PART II - CERTIFICATION OF DEFERMENT STATUS

A. To be completed by official of institution where borrower is enrolled or is pursuing advanced professional training and mailed to the school from which the loan was made.

NOTE: The Borrower must submit this form to his/her lending institution on a timely basis. Your prompt completion of this area and return to the Borrower is appreciated.

I certify that the information stated in Part I - A.1. ☐, A.2. ☐, C.1. ☐, C.2. ☐, (or) D. ☐ above, is true and correct.

(Check appropriate box)

NAME AND ADDRESS OF SCHOOL OR HOSPITAL	SIGNATURE OF AUTHORIZED OFFICIAL
	TITLE
	DATE

B. To be completed by the Commanding Officer, or Peace Corps Official, and mailed to the school from which the loan was made.

I certify that the information stated in Part I - B, above is true and correct.

Borrower's Uniformed Service* Serial Number _____.

NAME AND ADDRESS OF UNIFORMED SERVICE OR PEACE CORPS HEADQUARTERS	SIGNATURE OF COMMANDING OFFICER OR PEACE CORPS OFFICIAL
	DATE
INSTITUTIONAL ACTION—*School from which loan was made* APPROVED ☐ DISAPPROVED ☐ ☐ REASONS FOR DISAPPROVAL _____	SIGNATURE DATE

* The uniformed services of the United States are the Army, Navy, Marine Corps, Air Force, Coast Guard, National Oceanic and Atmospheric Administration Corps, and the U.S. Public Health Service.

HRSA-519 (BACK)

(Rev. 9/82)

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STATE LICENSING BUREAUS & PHONE NUMBERS

ALABAMA-MONTGOMERY (205)

Medical	832-5051 Dental
Dental	533-4638
Vet.	353-2435
Nurse	832-5747
Pharmacy	252-8976
CPA	834-7651
Attorney	269-1515

ARIZONA-PHOENIX (602)

Medical	255-3751
Dental	255-3696
Vet.	255-3094
Nurse	255-5092
Pharmacy	255-5125
CPA	255-3648
Attorney	252-4804

ARKANSAS-LITTLE ROCK (501)

Medical	578-2677
Dental	
Vet.	371-7725
Nurse	371-2751
Pharmacy	374-9211
CPA	371-1520
Attorney	375-4605

CALIFORNIA-SACRAMENTO (916)

Medical	920-6393
Dental	445-6407
Vet.	322-4070
Nurse	(Reg.) 322-3350
	(Voc. Pract.) 445-0793
St. Brd. of Pharmacy	445-5014
CPA	920-7121
Attorney	415-561-8200 Records

COLORADO-DENVER (303)

Medical	839-2468
Dental	839-3037
Vet.	839-2703
Nurse	839-2871
Pharmacy	839-2526
CPA	839-2869
Attorney	629-6873

CONNETICUT-HARTFORD (203)

Medical & Surgeons	566-4397
Dental	566-4619
Vet.	566-5461
Nurse	566-3716
Pharmacy	566-4832
CPA	566-7835
Attorney	249-9141

DELAWARE-DOVER (302)

Medical	736-4796
Dental	736-4796
Vet.	736-4796
Nurse	736-4796
Pharmacy	736-4796
CPA	736-4522
Attorney	658-5278 Wilmington Area

FLORIDA-TALAHASSEE (904)

Medical	488-7614
Dental	487-2395
Vet.	488-6602
Nurse	488-6602
Pharmacy	488-7546
CPA	488-6602
Attorney	222-5286

GEORGIA-ATLANTA (404)

Medical	656-3913
Dental	656-3925
Vet.	656-3936
Nurse	656-3921 LPN
Pharmacy	656-3912
CPA	656-3941
Attorney	656-3490 State Office of Bar Omissions

IDAHO-BOISE (208)

Medical	334-2822
Dental	334-2369
Vet.	
Nurse	334-3110
Pharmacy	334-2356
CPA	344-6261
Attorney	342-8959

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ILLINOIS-SPRINGFIELD (217)

Medical	785-0800
Dental	785-0800
Vet.	785-0800
Nurse	785-0800
Pharmacy	785-0800
CPA	
Attorney	782-2035-Clerk of the Supreme Court

INDIANA-INDIANAPOLIS (317)

Medical	232-1107
Dental	232-1120
Vet.	232-1129
Nurse	232-1129
Pharmacy	232-1140
CPA	257-6284
Attorney	639-5465

IOWA-DES MOINES (515)

Medical	281-5171
Dental	281-4401
Vet.	281-5643-Agriculture Dept.
Nurse	281-3255
Pharmacy	281-5944
CPA	281-4126
Attorney	243-3179

KANSAS-TOPEKA (913)

Medical	296-8413
Dental	273-0780
Vet.	(316) 672-3112
Nurse	296-4929
Pharmacy	362-1790
CPA	296-2162
Attorney	234-5696

KENTUCKY-FRANKFORT (502)

Medical	456-2220
Dental	
Vet.	564-3956
Nurse	564-7960
Pharmacy	564-3833
CPA	589-9239 (Louisville)
Attorney	564-3795

LOUISIANA-BATON ROUGE (504)

Medical & Surgeons	524-6763
Dental	524-0771
Vet.	
Nurse	566-5464
Pharmacy-New Orleans	482-2976
CPA	
Attorney	566-1600

MAINE-AUGUSTA (207)

Medical	873-2184
Dental	782-8859
Vet.	289-3701
Nurse	289-2921
Pharmacy	783-1171
CPA	942-6702
Attorney	774-6291

MARYLAND-ANNAPOLIS (301)

Medical	383-2020
Dental	383-7534
Vet.	269-2331
Nurse	383-2084
Pharmacy	383-7245
CPA	383-2134
Attorney	269-2140

MASSACHUSETTS-BOSTON (617)

Medical	729-3086
Dental	727-3067
Vet.	727-3071
Nurse	727-3060
Pharmacy	727-3084
CPA	727-3078
Attorney	523-4529

MICHIGAN-LANSING (517)

Medical	373-0680
Dental	373-6650
Vet.	373-6650
Nurse	373-1600
Pharmacy	373-0620
CPA	373-0682
Attorney	372-9030

NORTH CAROLINA-RALEIGH (919)

Medical	833-5321
Dental	832-4495
Vet.	484-5104
Nurse	828-0740
Pharmacy	942-4454
CPA	968-4449
Attorney	828-4886

NORTH DAKOTA-BISMARK (701)

Medical	223-9475
Dental	224-2000 (State Capitol)
Vet.	224-2654
Nurse	224-2974
Pharmacy	258-1535
CPA	
Attorney	255-1404

OHIO-COLUMBUS (614)

Medical	466-3934
Dental	466-2580
Vet.	866-6362
Nurse	466-3947
Pharmacy	466-4143
CPA	466-6134
Attorney	221-4112 (Columbus State Bar Assoc.)

OKLAHOMA-OKLAHOMA CITY (405)

Medical	848-6841
Dental	521-2350
Vet.	521-3891
Nurse	521-2363
Pharmacy	521-3815
CPA	521-2397
Attorney	524-2365

OREGON-SALEMN (503)

Medical	229-5770 (Portland)
Dental	229-5520
Vet.	378-8089 (Salemn)
Nurse	229-5653
Pharmacy	229-5849
CPA	282-7247 (Portland)
Attorney	224-4180 (Portland)

PENNSYLVANIA-HARRISBURG (717)

Medical (Waterville)	787-2381
Dental	783-3628
Vet.	783-3628
Nurse	783-3628
Pharmacy	783-3628
CPA	783-3628
Attorney	238-6715

RHODE ISLAND-PROVIDENCE (401)

Medical	277-2827
Dental	277-2827
Vet.	277-2827
Nurse	277-2827
Pharmacy	277-2827
CPA - Dept. of Bus. Regulation	277-3185
Attorney	421-5740

SOUTH CAROLINA-COLUMBIA (803)

Medical	758-3361
Dental	758-3361
Vet. 427-9661	H.L. Sutherland Ex. Director
Nurse	758-2611
Pharmacy	758-5447
CPA	758-8355
Attorney	799-6653

SOUTH DAKOTA-PIERRE (605)

Medical	336-1965
Dental	343-0711
Vet.	448-2468
Nurse	334-1243
Pharmacy	224-3338
CPA	336-0022 336-2850 ext. 134
Attorney	827-2412

TENNESSEE-NASHVILLE (615)

Medical	741-7289
Dental	741-7239
Vet.	741-7341
Nurse	741-7256
Pharmacy	741-2718
CPA	741-2250
Attorney	741-3234

MINNESOTA-ST. PAUL (612)

Medical	296-5534
Dental	296-5313
Vet.	296-5388
Nurse	296-5493
Pharmacy	296-5411
CPA	296-7937
Attorney	222-2050-(Renewal) Clerk of the Supreme Court

MISSISSIPPI-JACKSON (601)

Medical	354-6646
Dental	924-9622
Vet.	354-6089 (Dr. McCorry's
Nurse	354-7349 Office-Member)
Pharmacy	354-6750
CPA	353-1555
Attorney	948-4471

MISSOURI-JEFFERSON CITY (314)

Medical	751-2334
Dental	751-2334
Vet.	751-2334
Nurse	751-2334
Pharmacy	751-2334
CPA	751-2334
Attorney	635-4128

MONTANA-HELENA (406)

All But Real Estate	449-3737
Attorney	442-0760

NEBRASKA-LINCOLN (402)

Medical	471-2566
Dental	471-2115
Vet.	471-2215
Nurse	471-2001
Pharmacy	471-2115
CPA	471-2111
Attorney	475-7091

NEVADA-CARSON CITY (702)

Medical & Surgeons	329-2559
Dental	L.V.-732-2551
	Reno-786-2077
	423-3042
Vet.	784-6401
Nurse	786-2778
Pharmacy	322-0691
CPA	885-5203
Attorney	329-4100

NEW HAMPSHIRE-CONCORD (603)

Medical	271-4501
Dental	271-4561
Vet.	271-2404
Nurse	271-2323
Pharmacy	271-2350
CPA	271-3286
Attorney	669-4869-Manchester

NEW JERSEY-TRENTON (609)

Medical	292-4843
Dental	292-5656
Vet.	(609) 392-1180
Nurse	(201) 648-2490
Pharmacy	(201) 648-2433
CPA	(201) 648-3240
Attorney	(609) 394-1101

NEW MEXICO-SANTA FE (505)

Medical	827-2215
Dental	623-6868
Vet.	982-9821
Nurse	842-3026
Pharmacy	842-3136
CPA	265-7709
Attorney	827-2412

NEW YORK-ALBANY (518)

Medical	474-3817
Dental	474-3817
Vet.	474-3817
Nurse	474-3817
Pharmacy	474-3817
CPA	474-3817
Attorney	445-1211

TEXAS-AUSTIN (512)

Medical	475-0741	
Dental	475-2443	
Vet.	475-3933	
Nurse	478-9602	
Pharmacy	478-9827	
CPA	476-6971	
Attorney	475-1234	

UTAH-SALT LAKE CITY (801)

Medical	533-5711	
Dental	533-5711	
Vet.	533-5711	
Nurse	533-5718	(Ann Peterson)
Pharmacy	533-5711	
CPA	533-5711	
Attorney	531-9075	

VERMONT-MONTIPILLIER (802)

Medical	828-2721
Dental	828-2363
Vet.	828-2363
Nurse	828-2382
Pharmacy	828-2363
CPA	828-2363
Attorney	828-3281

VIRGINIA-RICHMOND (804)

Medical	257-6497
Dental	257-0022
Vet.	257-0038
Nurse	257-0350
Pharmacy	257-0039
CPA	786-2161
Attorney	286-2061

WASHINGTON-RICHMOND (804)

Medical		753-6838
Dental		753-6838
Vet.		753-6838
Nurse		753-6838
Pharmacy		753-6834
CPA		753-2585
Attorney	(Seattle)	622-6054

WEST VIRGINIA-CHARLESTON (304)

Medical	348-2921
Dental	252-0701
Vet.	675-2510
Nurse	348-3572
Pharmacy	527-1270
CPA	348-3557
Attorney	348-2456

WISCONSIN-MADISON (608)

Medical	266-2811
Dental	266-1396
Vet.	266-1626
Nurse	758-2611
Pharmacy	266-0141
CPA	266-3020
Attorney	257-3838

WYOMING-CHEYENNE (307)

Medical		777-7121
Dental		777-7945
Vet.		777-7515
Nurse		777-7601
Pharmacy	(Casper)	234-4815
CPA		777-7551
Attorney		632-9061

DISABILITY CHECKLIST

NAME: _____ AGE: _____

DATE OF BIRTH: _____ CONSENT FOR RELEASE OF INFORMATION: _____

DATE ENTERED SCHOOL: _____ DATE TERMINATED: _____

TOTAL AMOUNT OF LOANS OBTAINED (Including interest): _____

NUMBER OF CANCELLATIONS: _____ AMOUNT OF UNPAID BALANCE: _____

EMPLOYMENT PRIOR TO DISABILITY: _____

_____

DIAGNOSIS: _____

_____

DATE AND NATURE OF ONSET: _____

_____

MEDICAL EXAMINATION, TREATMENTS, HISTORY OF ILLNESS, HOSPITALIZATIONS, INPATIENT AND OUTPATIENT TREATMENTS, MEDICATIONS (Include copies of all pertinent past medical records in addition to documentation of a CURRENT medical evaluation): _____

_____

_____

_____

_____

_____

CURRENT MEDICATIONS: _____

PROGNOSIS: _____

REHABILITATION PLANS: _____

_____

IS ANY TYPE OF GAINFUL EMPLOYMENT POSSIBLE? _____

NOTES:

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Exhibit HPSL/NSL-63

FORM APPROVED
OMB NO 0915-0044

U.S DEPARTMENT OF
HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES AND SERVICES ADMINISTRATION
BUREAU OF HEALTH PROFESSIONS
Division of Student Assistance
5600 Fishers Lane
Rockville, Maryland 20857

REQUEST FOR PARTIAL CANCELLATION OF LOAN
NURSING STUDENT LOAN PROGRAM

INSTRUCTIONS—A borrower under the Nursing Student Loan Program must file this form (HRSA-520) with the school of nursing which made the loan in order to claim entitlement to loan cancellation for full-time professional registered nurse employment pursuant to Sections 836(b)(3) and 836(i) of the PHS Act.

The form must be submitted for each complete year of full-time professional registered nurse employment in a public or nonprofit private agency, institution or organization. It is the responsibility of the borrower seeking cancellation to (a) complete Part I, (b) obtain certification by the employing agency, Part II, and (c) forward the original and one copy to the lending school for cancellation of loan at the appropriate rate in lieu of payment. The lending school will complete Part III, indicating the amount of cancellation earned (principal and interest), and return the copy to the borrower making such request.

NAME AND ADDRESS OF SCHOOL FROM WHICH LOAN WAS MADE *(Include ZIP Code)*	NAME AND ADDRESS OF APPLICANT *(Include ZIP Code)*

PART I—To be Complete by Applicant

I hereby apply for a partial cancellation of my Nursing Student Loan in the appropriate amount of principal and interest, in accordance with the Public Health Service Act, as amended, for one complete year of employment as a full-time professional registered nurse.

NAME AND ADDRESS OF EMPLOYING AGENCY	PERIOD OF EMPLOYMENT *(Beginning - month, day, year)*	*(Ending - month, day, year)*
	SIGNATURE OF APPLICANT	DATE

PART II—Certification by Employing Agency

I hereby certify that the above statements concerning full-time professional registered nurse employment and period of service are true and correct.

NAME OF APPLICANT	POSITION TITLE OF APPLICANT	
NAME AND ADDRESS OF EMPLOYING AGENCY	SIGNATURE OF AUTHORIZED OFFICIAL	
Check: ☐ Private for Profit ☐ Public ☐ Private not for Profit	TITLE	DATE

PART III—Partial Loan Cancellation (To be completed by Lending School)

The above named individual's loan account has been credited for partial cancellation for full-time professional registered nurse employment in accordance with the Public Health Service Act, as amended, and Regulations, in the following amounts:

FOR LOANS MADE AFTER NOVEMBER 17, 1971, BUT PRIOR TO SEPTEMBER 29, 1979.	AMOUNT CANCELED	
Rate by year for professional employment	PRINCIPAL	INTEREST
☐ 1st year—15% ☐ 3rd year—15% ☐ 5th year—20% ☐ 2nd year—15% ☐ 4th year—20%	$	$

FOR LOANS MADE PRIOR TO NOVEMBER 18, 1971, ONLY	AMOUNT CANCELED	
Cancellation at rates in effect at such time	PRINCIPAL	INTEREST
☐ 10% per year up to 50% of such loans for Professional Employment ☐ 15% per year up to 100% of such loans for Professional Employment in a Shortage Hospital	$	$

SIGNATURE OF AUTHORIZING OFFICIAL—LENDING SCHOOL	TITLE	DATE

HRSA-520 (Formerly HRA-38-16)
(Rev. 11-82)

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
PUBLIC HEALTH SERVICE
HEALTH RESOURCES ADMINISTRATION
BUREAU OF HEALTH RESOURCES DEVELOPMENT

5000 ROCKVILLE PIKE
BETHESDA, MD. 20014

REQUEST FOR ASSURANCE
HEALTH PROFESSIONS STUDENT LOAN PROGRAM

APPLICABLE ONLY TO THE CANCELLATION OF HEALTH PROFESSIONS STUDENT LOANS MADE PRIOR TO NOVEMBER 18, 1971

NAME OF BORROWER (Last, First, Middle)	STATE HEALTH AUTHORITY (Name and Title)
ADDRESS (Street, City, State and Zip Code)	ADDRESS (Street, City, State and Zip Code)

INSTRUCTIONS

BORROWER: Complete Part I. Retain last copy and submit others to the appropriate State Health Authority.

STATE HEALTH AUTHORITY: Complete Part II. Retain last copy, and return others to the Borrower.

BORROWER: Retain the original copy throughout the term of practice in the designated Shortage Area. Attach the extra copy to the first application for postponement of installment to be filed after beginning practice.

PART - I *(To be completed by the Borrower)*

NOTE: This Request for Assurance should not be filed more than six months before the day a Borrower plans to begin practice in the shortage area.

Should the Borrower decide for any reason not to begin practice in the designated shortage area, he should notify the State Health Authority of his decision as soon as possible.

I plan to undertake the practice of ☐ MEDICINE ☐ OSTEOPATHY ☐ DENTISTRY ☐ OPTOMETRY

on or about _____ (Month) _____ (Day), 19_____ (Year), in _____ (Name of Designated Shortage Area), _____ (State).

and hereby request assurance that my practice within this area for twelve continuous months will entitle me to apply for partial cancellation of my Health Professions Student Loan.

_____ (Date) _____ (Signature of Borrower)

PART - II *(To be completed by the State Health Authority)*

ASSURANCE BY THE STATE HEALTH AUTHORITY

The area indicated by the borrower in Part I has been determined to be a shortage area as defined by the Regulations of the Public Health Service. The Borrower's practice therein will help to meet the shortage of and need for professional health services. The Borrower is assured the shortage area designated above for the period beginning _____ (Month) _____ (Day) _____ (Year)

and ending _____ (Month) _____ (Day), 19 _____ (Year).

_____ (Date)

_____ (Signature of State Health Authority)

_____ (Title)

HRA 36-7 (Formerly NIH 1614-7 3-74)

FORM APPROVED
O.M.B. NO. 68-R0847

ORIGINAL COPY

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Exhibit HPSL/NSL-65

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES AND SERVICES ADMINISTRATION
BUREAU OF HEALTH PROFESSIONS
5600 Fishers Lane
Rockville, Maryland 20857

HEALTH PROFESSIONS STUDENT LOAN PROGRAM
NOTICE OF PRACTICE IN SHORTAGE AREA

APPLICABLE ONLY TO THE CANCELLATION OF HEALTH PROFESSIONS STUDENT LOANS MADE PRIOR TO NOVEMBER 18, 1971

INSTRUCTIONS

Give information requested, sign, date, and distribute as follows:

Submit original to State Health Authority, submit one copy to Public Health Service and retain one copy. Initially, this notification must reach the State Health Authority before the expiration date of your assurance and annually thereafter, at the beginning of each year of practice not later than two weeks from your anniversary date of beginning practice in the designated shortage area.

NAME OF BORROWER *(Last, First, Middle)*	ADDRESS *(Street, City, State, Zip Code)*
BORROWER'S TELEPHONE NO:	NAME OF LENDING SCHOOL: YEAR DEGREE AWARDED:

I began the practice of ☐ MEDICINE, ☐ OSTEOPATHY, ☐ DENTISTRY, ☐ OPTOMETRY

on _____ *(Month)* _____, 19_____ *(Day)* *(Year)*

in _____, _____ *(Designated Shortage Area)* *(State)*

This is my ☐ FIRST ☐ SECOND ☐ THIRD ☐ FOURTH ☐ FIFTH ☐ SIXTH ☐ SEVENTH year of practice in this particular shortage area.

SIGNATURE OF BORROWER	DATE

REMARKS

HRSA-708 (Formerly HRA 38-8)
9-82

Form Approved
Budget Bureau 0915-0044

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DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES AND SERVICES ADMINISTRATION
Bureau of Health Professions
5600 Fishers Lane
Rockville, Maryland 20857

REQUEST FOR PARTIAL CANCELLATION OF LOAN HEALTH PROFESSIONS STUDENT LOAN PROGRAM

APPLICABLE ONLY TO THE CANCELLATION OF HEALTH PROFESSIONS STUDENT LOANS MADE PRIOR TO NOVEMBER 18, 1971

NAME OF BORROWER *(Last, First, Middle)*	NAME OF INSTITUTIONAL REPRESENTATIVE
ADDRESS *(Street, City, State, and Zip Code)*	NAME AND COMPLETE ADDRESS OF LENDING INSTITUTION

INSTRUCTIONS

PART I – To be completed by the Borrower after 12 continuous months of practice. Remove and retain the last copy (designated BORROWER'S COPY) and submit remainder of set to the State Health Authority. At the same time if you plan to continue your practice in the shortage area, submit Notice of Practice from HRSA-706 for the upcoming year (per instructions).

PART II – To be completed by the State Health Authority. Remove and retain the last copy, designated STATE HEALTH AUTHORITY'S COPY, and submit remainder of set to the Institutional Representative named above.

PART III – To be completed by the Institutional Representative. Retain the Original, return the COURTESY COPY to the Borrower and submit the PUBLIC HEALTH SERVICE COPY to the Health Professions Student Loan program.

PART I – BORROWER'S APPLICATION *(Type or print plainly)*

I hereby apply for a partial cancellation of my Health Professions Student Loan. I request cancellation of the appropriate amount of principal and interest thereon, in accordance with the Public Health Service Act, as amended.

I began practice of ☐ MEDICINE ☐ OSTEOPATHY ☐ DENTISTRY ☐ OPTOMETRY

on _____ *(Month)* _____ *(Day)* 19, _____ *(Year)* in _____ *(Designated Shortage Area)* _____ *(State)*, and

completed my ☐ FIRST ☐ SECOND ☐ THIRD ☐ FOURTH ☐ FIFTH ☐ SIXTH ☐ SEVENTH

twelve-month period of continuous practice therein on _____ *(Month)* _____ *(Day)* 19 _____ *(Year)*

_____ *(Date)* _____ *(Signature of Borrower)*

PART II – CERTIFICATION BY STATE HEALTH AUTHORITY

I hereby certify that the above-named Borrower has met the eligibility requirements for cancellation of ☐ 10% ☐ 15% of his loan in accordance with the Act and Regulations.

_____ *(Date)* _____ *(Signature and Title – State Health Authority)*

PART III – PARTIAL LOAN CANCELLATION

Cancellation of a portion of the above-named Borrower's loan account has been made in the amount of

$ _____ *(Principal)* and $ _____ *(Interest)*, in accordance with the Act and Regulations.

_____ *(Date)* _____ *(Signature and Title – Institutional Representative)*

HRSA-707 (FORMERLY HRA 38-18)
9-82

INSTITUTION COPY

FORM APPROVED
O.M.B. NO.0915-0044

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Exhibit HPSL/NSL-67

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE - HEALTH RESOURCES AND SERVICES ADMINISTRATION
BUREAU OF HEALTH PROFESSIONS

REQUEST FOR POSTPONEMENT OF INSTALLMENT PAYMENT

NURSING STUDENT LOAN PROGRAM

INSTRUCTIONS

This form, HRSA-518, must be filed in lieu of payment in accordance with the repayment schedule you selected to retire your Nursing Student Loan if you are currently employed as a full-time professional registered nurse in any public or nonprofit private agency, institution, or organization and wish to claim entitlement to partial cancellation of such loan at the end of a complete year of such employment.

Two (2) copies of the form should be executed for each school from which you secured a loan; the original to be filed with the lending school and the second copy to be retained for your records. It is the responsibility of the borrower seeking postponement of installment payment of loan to return this form properly executed to the school from which the loan was made.

Should you terminate full-time employment as a professional registered nurse prior to the completion of a year, the installment repayment(s) is immediately due and payable to the lending school.

NAME AND ADDRESS OF SCHOOL FROM WHICH LOAN WAS MADE	NAME AND ADDRESS OF BORROWER
	DATE GRADUATED

PART I — CERTIFICATION OF EMPLOYMENT *(To be completed by borrower)*

NAME AND ADDRESS OF EMPLOYER	TITLE OF POSITION
	BEGAN EMPLOYMENT *(Month)* *(Day)* *(Year)*
	REPAYMENT INSTALLMENT $ DATE DUE

I certify that I am employed full time as a professional registered nurse as indicated above and expect to complete one year of such employment on *(month, day, year)* _____, at which time I shall secure cancellation of a portion of my loan in accordance with the Public Health Service Act, as amended, and Regulations. I therefore request postponement of repayment installment on the date due above.

SIGNATURE OF BORROWER	DATE

PART II — CERTIFICATION OF EMPLOYMENT *(To be completed by Employer)*

I certify that the statements above concerning service of the above-named borrower as a full-time professional registered nurse are true and correct.

NAME AND ADDRESS OF EMPLOYER	SIGNATURE OF OFFICIAL
	TITLE
CHECK: ☐ PUBLIC ☐ PRIVATE NOT FOR PROFIT ☐ PRIVATE FOR PROFIT	DATE

HRSA-518 (FORMERLY HSA-518)
9-82

GPO 910-426

FORM APPROVED
OMB NO. 0915-0044

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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES AND SERVICES ADMINISTRATION
BUREAU OF HEALTH PROFESSIONS
5600 Fishers Lane
Rockville, Maryland 20857

HEALTH PROFESSIONS STUDENT LOAN PROGRAM
REQUEST FOR POSTPONEMENT OF INSTALLMENT PAYMENT

APPLICABLE ONLY TO THE CANCELLATION OF HEALTH PROFESSIONS STUDENT LOANS MADE PRIOR TO NOVEMBER 18, 1971

NAME OF BORROWER	NAME OF INSTITUTIONAL REPRESENTATIVE
ADDRESS *(Street, City, State, Zip Code)*	NAME OF SCHOOL AND ADDRESS *(City and State)*

INSTRUCTIONS

At the beginning of each repayment year, the borrower should forward one copy of this form to each school from which a loan was secured if he wishes to postpone payment of loan installments due during the year.

I declare that I began the practice of ☐ MEDICINE, ☐ OSTEOPATHY, ☐ DENTISTRY, ☐ OPTOMETRY

on _____ (Month), _____ (Day), 19____ (Year) in _____ (City)

_____ (Designated Shortage Area), _____ (State)

and expect to complete my ☐ FIRST ☐ SECOND ☐ THIRD ☐ FOURTH ☐ FIFTH ☐ SIXTH

☐ SEVENTH year of practice in this shortage area on _____ (Month) _____ (Day), 19____ (Year).

For such practice I expect to secure cancellation of a portion of my loan according to the Student Financial Aid Guidelines and therefore, request postponement of this year's installment payment(s).

SIGNATURE OF BORROWER	DATE

HRSA-708 (Formerly HRA 28-9)
9-82

Form Approved
Budget Bureau 0915-0044

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Appendix IV: Forms, Letters, and Other Documents That Illustrate Chapters 4, 5, and 6

Questions to Ask the Court Clerk on Defaulted Borrower Litigation

1. Does the school have a choice on suing the debtor in the institution's local court system or in the debtor's place of residence?

2. Is there a statute of limitations involved?

3. Is there a small claims court that can be used? What is the appropriate court in which to bring suit?

4. What are the dollar limits of suits in the small claims court?

5. Who hears cases in the court? Are there choices as to who will hear cases? Are there differences depending on the amount of the suit?

6. How is a warrant or complaint filed and where are the necessary forms obtained?

7. What documents must accompany the warrant or complaint? How many copies of each are needed?

8. What is the filing fee?

9. Must the exact amount to be recovered be specified on the warrant or complaint or can this be an approximate amount? Does the amount listed set a limit on the amount that can be collected from the debtor?

10. How must the debtor be notified of the suit and how much advance notice is required? Can the debtor be served by regular mail, is certified mail required, or is service by a constable or a sheriff mandatory? What does the service cost?

11. How do these procedures and fees differ when the debtor is located in a different jurisdiction? In a different state?

12. What happens if the person serving the legal notice cannot reach the debtor?

13. How is the hearing date set?

14. Who must represent or be a witness for the institution at a hearing?

15. What evidence (documents) would be needed at a hearing?

16. Must the case be argued at the hearing or, if something untoward happens, can the case be postponed?

17. Can default judgment be taken without attending a hearing if the debtor does not respond to the complaint?

18. Where is a judgment recorded, who must record it, and what is the cost?

19. How long does it take before the judgment can be filed with the court?

20. How long does the institution have to file the judgment?

21. How often must the judgment be renewed or extended if the institution has been unable to execute it?

22. Can the institution execute a judgment and how is it done?

23. How is evidence of assets found when considering execution of a judgment?

24. Does the state allow garnishment of wages? If so, what are the procedures for initiating garnishment?

25. How often must garnishment papers be refiled?

26. What are state rules concerning attachment of assets for nonpayment of debts?

27. What are procedures for assigning judgments? For assigning portions of judgments?

28. What if a debtor wishes to settle the account prior to the hearing and would it make a difference if the debtor wishes to pay in full or make payment arrangements?

29. If the borrower settles after judgment has been entered, how is the judgment removed? What is the cost and can it be charged to the debtor?

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SUMMONS FOR DEBTOR TO APPEAR IN COURT

To Any Lawful Officer to Execute and Return:

STATE OF TENNESSEE, COUNTY OF KNOX

Summon _____

_____

to appear before the Court of General Sessions of Knox County, Tennessee, to be held at the Courtrooms of said Court in said County on the ____ day of _____, 19 ____, at _____ M., then and there to answer in a civil action brought by _____

_____

for _____

_____

_____

_____

under _____ Dollars.

This the ____ day of _____, 19 ____

Clerk of Court of General Sessions

By _____
Deputy Clerk.

BOND

We, _____, Principal and _____, Surety, do hereby bind ourselves, our heirs and assigns in the penal sum of Twenty-five ($25.00) Dollars, conditioned that the plaintiff shall prosecute this suit with effect or pay such costs and damages as may be adjudged against him by the Court having cognizance thereof.

This ____ day of _____, 19 ____

_____, Principal

_____, Surety

PAUPER'S OATH

I, _____, do solemnly swear that I am a resident of the State of Tennessee, and that owing to my poverty, I am not able to bear the expense of the action which I am about to commence, and that I am justly entitled to relief sought, to the best of my belief.

_____

Sworn to and subscribed before me

this the ____ day of _____, 19 ____

_____
Deputy Clerk.

MILITARY AFFIDAVIT

STATE OF TENNESSEE
COUNTY OF KNOX

IN RE: _____ No. _____

vs.

_____

Personally appeared before me, the undersigned authority, _____ who first being duly sworn, makes oath that he is the plaintiff (or plaintiff's agent or attorney) in the above styled cause now pending in the Court of General Sessions of Knox County, and that the Defendant _____ is not in the Military Service of the United States or any branch thereof.

_____

Sworn to and subscribed before me this the ____ day of _____, 19 ____

_____

BEST COPY AVAILABLE

BEST COPY AVAILABLE

No. _____

_____

_____

vs. Plaintiff,

_____

_____

Defendant.

CIVIL WARRANT
COURT OF GENERAL SESSIONS

Issued _____, 19 ___

Ret Per _____, 19 ___

at _____ M.

Clerk

By _____
Deputy Clerk.

Ret Per _____

Ret Per _____

Cause to hand, same day issued, and executed as commanded by reading the within warrant to

_____

_____

_____

_____

_____

and citing _____ for trial on the _____ day of _____, 19 ___, at _____ M.

This ____ day of _____, 19 ___

_____
Sheriff (Constable).

_____
Atty. for Pltf.

_____
Atty. for Def.

BILL OF COSTS
GENERAL SESSIONS COURT

_____ Dollars Costs

Issuing _____

Probating Account _____

Judgment _____

Docketing _____

Affidavit for Cont. _____

Continuance _____

Prosecution Bond _____

Issuing Subpoena _____

Issuing Fi Fa _____

Appeal Bond _____

Copy Bill of Costs _____

Issuing Attachment _____

Judgment on Gar. _____

Serving Process _____

Summoning Witnesses _____

Serving Attachment _____

Witnesses' Fees _____

_____

_____

_____

_

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Exhibit LEGAL-71

STUDENT LOANS & SPECIAL ACCOUNTS/LITIGATION WORKSHEET

Student's Name _____ Social Security Number _____

Current Address _____ File Number _____

Control Number _____

	Type	Date	Original Amount
Student	_____	_____	$_____
Loan	_____	_____	_____
Advances	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
		Sub-Total	$_____

TOTAL PENALTY_____AND INTEREST_____DUE TO DATE: $_____

AMOUNT OF PRINCIPAL REPAID OR CANCELLED ON ALL LOANS: $_____

TOTAL DUE ON ALL NOTES IN DEFAULT: $

OTHER OBLIGATIONS OWING:

DATE	ACCOUNTS	AMOUNT
_____	_____	$_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

TOTAL NON-LOAN OBLIGATIONS: $

ATTORNEY FEES: _____

COURT COSTS: _____

JUDGMENT SOUGHT IN THE AMOUNT OF: $

_____

Account Representative

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218

Exhibit LEGAL-72

APPLICATION FOR EXECUTION TO SATISFY JUDGMENT

APPLICATION FOR AND EXECUTION

IN THE GENERAL SESSIONS COURT, AT KNOXVILLE
KNOX COUNTY, TENNESSEE

University of Tennessee
Plaintiff

Defendant

No. 80264
In the General Sessions Court
at Knoxville, Tennessee

Works: _____

Address _____

APPLICATION FOR EXECUTION

The Plaintiff hereby makes application to the GENERAL SESSION COURT to have an execution in the above styled case to satisfy a judgment against the defendant(s) herein for $ 5325.60 and costs of $ _____
The balance of the judgment that remains unsatisfied after the defendant is credited with payments heretofore made on said judgment is $ _____

This _____ day of _____, 19____

_____
[redacted] Agent for Plaintiff.
(Strike out words not applicable)

Issued this _____ day of _____, 19____

Clerk of the Court of General Sessions

By _____ D.C.

No. _____

Plaintiff(s)

Vs.

Defendant(s)

EXECUTION
GENERAL SESSIONS COURT
KNOX COUNTY
AT KNOXVILLE, TENNESSEE

Issued the ___ day of _____, 19____
Clerk
By _____ D.C.

Came to hand same day issued and executed in full by levying this, the within execution, on the following described property of defendant, to-wit:

Sheriff-Constable

Received the foregoing execution this _____ day of _____, 19____

_____
Sheriff-Constable

LEVY BY GARNISHMENT

Came to hand the same day issued and being unable to find any personal property of the debtor in this County sufficient to satisfy said execution, I levied the same Garnishment as required by law upon _____
_____ by summoning him in writing to appear before the GENERAL SESSIONS COURT, at Knoxville, in Knox County, Tennessee, on the _____ day of _____
_____ at _____ o'clock ____ M., and answer the garnishment served upon him, a true copy of which is hereto attached.

This the _____ day of _____, 19____

_____
Sheriff-Constable

EXECUTION
GENERAL SESSIONS COURT
STATE OF TENNESSEE, KNOX COUNTY

To any Lawful Officer to Execute and Return:

You are hereby commanded, that of the goods and chattels, lands and tenements of _____ _____ you cause to be made the sum of _____ ($_____) Dollars to satisfy a judgment obtained by _____ Plaintiff against _____, Defendant, in the Court of General Sessions, at Knoxville, in Knox County, Tennessee, on the _____ day of _____, 19____, with $_____ interest from said date and the costs of said cause, as follows:

Court costs, Court of GENERAL SESSIONS	$_____
Officer's Fee	_____
Levy	_____
Officers' Commissions	_____
TOTAL	$_____

You are hereby further commanded to pay such moneys, when collected on said judgment, the clerk of court for disbursal to said plaintiff, and said court costs, when collected, shall be paid into this Court, and you shall make return as to how you have executed this writ within thirty days from this date.

Issued this _____ day of _____, 19_____

Clerk of the Court of General Sessions

By _____ D.C.

Received the foregoing execution this _____ day of _____, 19____

_____
Sheriff-Constable

BEST COPY AVAILABLE

SAMPLE CREDIT BUREAU LETTER

Account Number: _____
Account Balance: $ _____
Amount Past Due: $ _____

Dear _____:

Several notices have been sent to you regarding your past due _____ _____ account. Since you have failed to satisfactorily respond to our previous requests for payment, it is the university's obligation to inform a CREDIT BUREAU of your account status.

Lenders use the information in the Credit Bureau file to determine credit worthiness when reviewing loan applications; therefore, you are jeopardizing your chances of getting future credit. Why risk a poor credit report? Contact this office immediately to establish a repayment schedule.

If I have not heard from you by _____, the original copy of the enclosed report will be forwarded to your local Credit Bureau.

Sincerely yours,

Accounts Receivable Office

Enclosure

VOLUNTARY CASE: DEBTOR'S PETITION

UNITED STATES BANKRUPTCY COURT
FOR THE _____DISTRICT
OF_____

In re

_____,
Debtor (include here all names used by Debtor within last 6 years)

Case No._____

VOLUNTARY CASE: DEBTOR'S POSITION

1. Petitioner's post-office address is_____

2. Petitioner has resided (or has had his domicile or has had his principal place of business or has had his principal assets) within this district for the preceding 180 days (or for a longer portion of the preceding 180 days than in any other district).

3. Petitioner is qualified to file this petition and is entitled to the benefits of title 11, United States Code as voluntary debtor.

(If appropriate)

4. A copy of petitioner's proposed plan, dated _____, is attached (or Petitioner intends to file a plan pursuant to chapter 11 (or chapter 13) of title 11, United States Code).

WHEREFORE, petitioner prays for relief in accordance with chapter 7 (or chapter 11 or chapter 13) of title 11, United States Code.

Signed:_____,
Attorney for Petitioner

Address:_____
_____

(Petitioner signs if not represented by attorney.)

_____
Petitioner

I,_____, the petitioner named in the foregoing petition, certify under penalty of perjury that the foregoing is true and correct.

Executed on _____

Signature:_____
Petitioner

Exhibit LEGAL-75

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

In re:

Case No. LA 83 10248 CA

S.S. No.

Petition Filed: May 25, 1983

Attorney:

Name and Address of Debtor(s)

Trustee:

ORDER FOR AND NOTICE OF HEARING

TO THE DEBTOR, HIS CREDITORS, AND OTHER PARTIES IN INTEREST:

An order for relief under 11 U.S.C. 301 and an automatic stay under 11 U.S.C. 362 are in effect upon the Chapter 7 petition filed by the above-named debtor(s).

Until it is determined that there are assets in this case DO NOT FILE A CLAIM AT THIS TIME. (ANY CLAIMS RECEIVED IN THIS CASE WILL NOT BE PROCESSED OR ACKNOWLEDGED BY THIS COURT.) If it later appears that there are assets to be distributed, you will be given an opportunity to file a claim.

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

1. Pursuant to 11 U.S.C. 341(a), a hearing shall be held in Room 3114, 3rd Floor, U. S. Federal building, 200 North Los Angeles Street, Los Angeles, California on JUNE 21, 1983 at 9:00 a.m., at which creditors may attend.

2. The debtor shall appear at this meeting for the purpose of being examined.

3. Pursuant to 11 U.S.C. 362(a), certain acts and proceedings against the debtor and his property are stayed.

4. (If the debtor is an individual) AUGUST 2, 1983 is fixed as the last day for filing complaints, as provided in 11 U.S.C. 523(c), to determine the dischargeability of debts claimed to be nondischargeable under paragraphs (2), (4), or (6) of 523(a); and for filing objections to the discharge of the debtor.

BY ORDER OF THE U.S. BANKRUPTCY COURT

_____

Clerk of Court

Attorney for Bankrupt

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

In re

Bankruptcy No. BK 78-10425 AP

Petition filed: November 13, 1978

S.S. No.

Bankrupt(s)

ORDER FOR FIRST MEETING OF CREDITORS, AND FIXING TIME FOR FILING OBJECTIONS TO DISCHARGE AND COMPLAINTS TO DETERMINE DISCHARGEABILITY OF DEBTS, COMBINED WITH NOTICE THEREOF AND AUTOMATIC STAY

IT IS ORDERED AND NOTICE IS HEREBY GIVEN, that:

1. The FIRST MEETING OF CREDITORS OF the above adjudged bankrupt(s) is to be held in Courtroom 520 , Federal Office Building, 34 Civic Center Plaza, Santa Ana, CA 92701 on Dec. 11, 1978 at 2:30 o'clock p.m. at which place and time creditors may attend, file their claims, elect a trustee, elect a committee of creditors, examine the bankrupt, and transact such other business as may properly come before said meeting.

2. The bankrupt shall appear in person (or, if the the bankrupt is a partnership, by a general partner, or, if the bankrupt is a corporation, by its president or other executive officer) before the court at that time and place for the purpose of being examined.

3. March 5, 1979 is fixed as the last day for the filing of objections to the charge of the said bankrupt(s) and for the filing of complaints, as provided in 17c(2) of the Bankruptcy Act, to determine the dischargeability of debts claimed to be nondischargeable under clause (2), (4), or (8) of 17a of the Bankruptcy Act.

4. A hearing may be held at the aforesaid place and time, as provided in Bankruptcy Rule 220, to determine the reasonableness of the fees paid or promised by the bankrupts to their attorneys of record, if any. The attorney of record for each bankrupt shall have his statement under Rule 219 on file with the court no later than four days prior to said hearing.

YOU ARE FURTHER NOTIFIED THAT (1) said first meeting may be continued or adjourned without further written notice, that (2) CERTAIN ACTS AND PROCEEDINGS AGAINST THE BANKRUPT(S) AND HIS PROPERTY ARE STAYED AS PROVIDED IN IN BANKRUPTCY RULES 401 and 601, that (3) in order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file claim, whether or not he is included in the list of creditors filed by the bankrupt and claims which are not filed within 6

months after the above date set for the first meeting of creditor will not be allowed, except, as otherwise provided by law, that (4) claims may be filed in the office of the undersigned bankruptcy judge on an official form prescribed for a proof of claim and (5) that any objection to a report of exempt property must be filed within 15 days after the report is filed unless that court extends the time.

BANKRUPTS, please note that your legal rights may be affected by papers mailed to you. If you move before this case is closed, you should send the court a written change of address.

DATED: November 28, 1978

BANKRUPTCY JUDGE
522 Federal Office Building
34 Civic Center Plaza
Santa Ana, CA 92701

TELEPHONE NO. (714) 836-2655

ORDER FOR FIRST MEETING OF CREDITORS

Attorney for Debtor

UNITED STATES BANKRUPTCY COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

In re

CASE NO. LA 81-01307

NOTICE OF STAY

Debtor

PLEASE TAKE NOTICE that a bankruptcy proceeding has been filed in the above entitled matter. An automatic stay has been issued prohibiting:

1. The commencement or continuation, including the issuance or employment of process, of judicial, administrative, or other proceeding aginst the Debtor that was or could have been commenced before the commencement of the case under this title, or to recover a claim against the Debtor that arose before the commencement of the case under this title.

2. The enforcement, against the debtor or against property of the estate, of a judgment obtained before the commencement of the case under this title.

3. Any act to obtain possession of property of the estate or of property from the estate.

4. Any act to create, perfect, or enforce any lien against property of the estate.

5. Any act to create, perfect, or enforce against property of the Debtor any lien to the extent that such lien secures a claim that arose before the commencement of the case under this title.

6. Any act to collect, assess, or recover, a claim against the Debtor that arose before the commencement of the case under this title.

7. The setoff of any debt owing to the Debtor that arose before the commencement of the case under this title against any claim against the Debtor.

8. The commencement or continuation of a proceeding before the United States Tax Court concerning the Debtor.

Dated: February 4, 1981

Attorney for Debtor

Discharge of Debtor

It appearing that the person named above has filed a petition commencing a case under title 11, United States Code on _____, and an order for relief was entered under chapter 7 and that no complaint objecting to the discharge of the debtor was filed within the time fixed by the court (or that a complaint objecting to discharge of the debtor was filed and, after due notice and hearing, was not sustained); it is ordered that

1. The above-named debtor is released from all dischargeable debts.

2. Any judgment heretofore or hereafter obtained in any court other than this court is null and void as a determination of the personal liability of the debtor with respect to any of the following:

(a) debts dischargeable under 11 U.S.C. 523;

(b) unless heretofore or hereafter determined by order of this court to be nondischargeable, debts alleged to be excepted from discharge under clauses (2), (4) and (6) of 11 U.S.C. 523(a);

(c) debts determined by this court to be discharged.

3. All creditors whose debts are discharged by this order and all creditors whose judgments are declared null and void by paragraph 2 above are enjoined from instituting or continuing any action or employing any process or engaging in any act to collect such debts as personal liabilities of the above-named debtor.

Dated:_____

BY THE COURT

_____

Bankruptcy Judge

Letter on Receiving Bankruptcy Notification

NOTE: This letter may be sent to a bankruptcy court (Chapter 7 only) when the notification is received. However, most courts will exclude student loans from bankruptcy without this notice.

Re:
Bankruptcy No._____

TO WHOM IT MAY CONCERN:

Be advised, the National Direct (Defense) Student Loan which the above bankrupt borrowed is not dischargeable under the New Bankruptcy Reform Act, Public Law 95-598, Section 523(a)(8), effective October 1, 1979. In the view of our attorney the code is self-executing and claims need not be filed.

I would appreciate it if you would advise when the bankruptcy case is closed, or the time the case is dismissed. If you are unable to notify me in regard to the contingencies mentioned above I would also like to hear from you.

Kindest regards.

Sincerely,

NDSL Collection Manager

BANKRUPTCY COURT CASES

WHEN DOES THE FIVE-YEAR PERIOD BEGIN?

In Re Powelson, 25 B.R. 274 at 275 (Neb. 1982)—the court recognized that under the statute, the five-year period does not commence until the "note was due and payable," that is, until after any grace period has expired.

In Re Kaufman, 9 B.R. 755 (Pa. 1981)—The court ruled that the clock begins to run when the payment is due, not when the payment is made.

WHEN THE FIVE-YEAR PERIOD HAS TERMINATED, SHOULD THE ENTIRE LOAN BE DISCHARGED OR ONLY THE PORTION DUE AND PAYABLE AT THAT TIME? THIS IS STILL SOMEWHAT UNCLEAR.

Johnson v. *Graceland College*. 17 B.R. 95 at 99 (Mo. 1981)—only those installments that have been due and owing for five years are dischargeable.

In the Matter of Strauss, 38 B.R. 662 (Mich. 1984)—repudiated the *Johnson* v. *Graceland College* case and held that the five-year period was not affected by the dates the installment payments were due.

In Re James, 4 B.R. 115-118 (Pa. 1980)—the entire student loan is dischargeable "when the first repayment installment becomes due within five years prior to the bankruptcy filing." This interpretation appears to be the prevailing view of the courts.

WHAT INTERRUPTS THE FIVE-YEAR PERIOD BESIDES DEFERMENTS AND GRACE PERIODS?

In Re Brinzer, 21 B.R. 545 (W.Va. 1982) and *Matter of Williams* 9 B.R. 1004 (Va. 1981)—institutional errors that are known but not corrected by the borrower interrupt the five-year period.

In Re Kaufman, 9 B.R. 755 (Pa. 1981)—deferment status requested by the debtor and granted by the institution interrupted the five-year period, even though the deferment was longer than it should have been, because the debtor did not inform the institution when his status changed.

In Re Crumly, 21 B.R. 170 (Tenn. 1982)—an error by the institution that made the deferment period longer than it should have been did not interrupt the five-year period.

In Re Ziglar, 19 B.R. 298 (Va. 1980) and *In Re Brown*, 4 B.R. 745 (Va. 1980)—reaffirmations, novations, and judgments did not start a new five-year period.

DOES THE FULL FIVE YEARS HAVE TO RUN BEFORE THE PETITION IS FILED?

In Re Powelson, 25 B.R. 274 (Neb. 1982)—a bankruptcy petition filed before the five-year period has ended does not discharge the loan even if the five-year period terminates before the date of the discharge.

DOES THE INSTITUTION HAVE TO PROVE THAT THE FIVE-YEAR PERIOD HAS NOT TERMINATED?

In Re Wright, 7 B.R. 197 (Ala. 1980)—the creditor has the burden to show that the student loan became due within the five-year period.

WHAT DOES UNDUE HARDSHIP MEAN?

Nichols v. *Regents of the University of California*, 15 B.R. 208 (Cal. 1981)—the debtor must show proof of extraordinary circumstances, for example, that if the educational loans are not discharged, these loans would unreasonably hinder the fresh start intended by the bankruptcy law. The court noted that "mere inconvenience, austere budget, financial adversity, and poor present employment situation are not grounds for including debts for outstanding loans among those discharged in bankruptcy."

In Re Kohn, 5 B.C.D. 419 (N.Y. 1979)—the court noted "The point is that Congress meant the extinguishment of student loans to be an available remedy to those severely disadvantaged economically as a result of unique factors which are so much a part of the bankrupt's life, present and in the foreseeable future, that the expectation of repayment is virtually nonexistent unless he by the effort strips himself of all that makes life worth living."

THE THREE-TIERED TEST FOR UNDUE HARDSHIP

In the Matter of Johnson, 5 B.C.D. 532 (PA. 1979)—the court established the three-tier test to determine undue hardship: the mechanical test in which the court examines the debtor's current and future resources and expenses; the good faith test in which the court asks whether the debtor showed good faith in attempting to discharge the educational loan; and the policy test in which the court considers public policy issues.

Examples of the mechanical test include:

In Re Lezer, 21 B.R. 783, 789 (N.Y. 1983)—do the long-term future resources of the debtor appear sufficient to support the debtor and his or her family at the subsistence or poverty standard of living?

In Re Tobin, 18 B.R. 560, 562 (Wis. 1982), *In Re Rappaport*, 16 B.R. 615 (N.J. 1981), and *In Re Bell*, 5 B.R. 461 (Ga. 1980)—do the borrower's prospects for the future indicate that the situation will be less severe as time passes?

In Re Hartung, 24 B.R. 850, 852 (Ohio 1982)—does the debtor's spouse contribute to the debtor's income? Are the debtor's physical ailments severe enough to interfere with maintaining a full-time job?

Examples of the good faith test include:

In Re Abrams, 19 B.R. 64 (Neb. 1982)—is the debtor seriously seeking work?

Perkins v. *Vermont Student Assistance Corporation*, 11 B.R. 160 (Vt. 1980)—has the debtor made unnecessary expensive purchases?

In Re Rice, 13 B.R. 614 (S.D. 1981) and *In Re White*, 6 B.R. 26 (N.Y. 1980)—has the debtor made an effort to negotiate payment of the loan through seeking a new payment schedule, hardship deferment, or institutional forbearance?

Examples of the policy test include:

In Re Ford, 22 B.R. 442 (N.Y. 1982) and *In Re Yarber*, 19 B.R. 18 (Ohio 1982)—was the education received of benefit or value?

In Re Abrams, 19 B.R. 64 (Neb. 1982)—challenges whether the education received was of value or benefit.

In Re Price, 25 B.R. 256, 258 (Mo. 1982)—did the training or education received allow the debtor to improve his or her job prospects?

DO BANKRUPTCIES HAVE TO BE ALL OR NOTHING FOR THE INSTITUTION?

In Re Littell, 6 B.R. 85 (Oregon 1980)—the court ordered the debtors to pay $10.00 per month for forty-eight months, thus repaying 11% of their loan principal.

Matter of Hammen, 7 B.R. 63 (Ala. 1980)—the court required the borrower to pay limited amounts for five years.

In Re Albert, 25 B.R. 98 (Ohio 1982)—the court reduced the amount of nondischargeable loan by the amount of the accrued interest.

In Re Brown, 18 B.R. 219, 224 (Kan. 1982)—the court reduced the amount of debt by the amount of interest.

In Re Thomas, Adversary Proceeding No. 82-01024, April 27, 1983, Oregon—the court imposed a three-year delay in payments and permitted the debtor to pay the debt in three annual installments with no interest.

DOES IT MATTER IF THE STUDENT RECEIVED THE LOAN UNDER FALSE PRETENSES?

Abbott v. *Regents* of the University of California, 516 F. 2d 830 (9th Cir. 1975)—the court did not discharge an NDSL when the institution showed that the debtor failed to list on his application for an NDSL at the institution other NDSLs he had received elsewhere. These other NDSLs brought the borrower over the limit of total NDSL funds he could receive.

California v. *Payne*, U.S.D.C. Cal., Bankruptcy (1978)—the court did not discharge educational loans because the borrower had not informed the institution when he became employed as a teacher. He was instructed to notify the institution if his financial situation changed. When he did not do so, the institution could overaward aid inadvertently.

WHAT CONSTITUTES "GOOD FAITH" IN CHAPTER 13 BANKRUPTCIES?

In Re Terry, 3 B.R. 6 (Ark.) rev'd 630 F. 2d 634 (8th Cir. 1980)—the court confirmed a plan that proposed no payments to any creditors.

In Re Rabum, 4 B.R. 625 (Ga. 1980)—the court held that a minimum of 70% repayment is required for a wage earner's plan to be confirmed.

In Re Rowe, 17 B.R. 870 (Va. 1982); *In Re Rimgale*, 669 F. 2d 426 (7th Cir. 1982); *In Re Jonson*, 17 B.R. 78 (1981), *In Re Howard*, 3 B.R. 75 (Cal. 1980), and *In Re Burrell*, 6 B.R. 360 (Cal. 1980)—these courts all required the debtor to make meaningful repayments on educational loans.

In Re Jonson, 17 B.R. 78 (1981)—the court held that "the purpose of Chapter 13 was not to allow a debtor to discharge a debt or debts which would not be dischargeable under Chapter 7 . . . without substantial payment by the debtor to the creditor or creditors." The court refused to confirm a plan that called for 39% repayment of the debt. Similar decisions were made in *Wright State University* v. *Novak*, 25 B.R. 459 (Ohio 1982) and *In Re Gaston*, 25 B.R. 571 (Ohio 1982).

The University of Tennessee has successfully argued against Chapter 13 debtors who proposed making only partial payments on their educational loans, by citing section 1325(a)(4) of Public Law 95-598, the Bankruptcy Code. This section states "The court shall confirm a plan if— . . . the value, as of the effective date of the plan, of property to be distributed under the plan on account of each allowed unsecured claim is not less than the amount that would be paid on such

claim if the estate of the debtor were liquidated under Chapter 7 of this Title on such date." Since educational loans are not dischargeable under Chapter 7, they should be fully paid under Chapter 13. The university has received no written decision, since the argument has been convincing to the opposing legal counsel each time it has been used.

In Re McMinn, 4 B.R. 150 (D. Kan. 1980)—anything less than a 100% Chapter 13 repayment plan for student loans must be rejected under section 1325 (a)(4) of the Bankruptcy Code.

In Re Rimgale, (7th Cir. 1982) 669 F.2d 426, 430 and *In Re Goeb* (9th Cir. 1981) 675 F. 2d 1386—reject the argument that section 1325 (a)(4) of the Bankruptcy Code requires no less than 100% repayment under a Chapter 13 payment plan.

WHEN CAN THE INSTITUTION WITHHOLD TRANSCRIPTS?

Johnson v. *Edinboro State College*, (3d. Cir. 1984) 728 F. 2d 163—transcripts cannot be withheld when a discharge has been granted, but can be if the debt is not discharged. This case makes no distinction between public and private universities.

In Re Reese, 38 B.R. 681 (Ga. 1984)—a state university's withholding of a transcript as a collection tool violated the automatic stay provision of the Bankruptcy Code.

UNITED STATES BANKRUPTCY COURT

For the _____ District of _____

In re_____ Case No._____

Debtor_____

PROOF OF CLAIM

1. (If claimant is an individual claiming for himself) The undersigned, who is the claimant herein, resides at_____

(If claimant is a corporation claiming through an authorized officer) The undersigned, who resides at _____ is the _____ of _____, a corporation organized under the laws of _____, and doing business at _____, and is authorized to make this proof of claim on behalf of the corporation.

(If claim is made by an agent) The undersigned, who resides at _____, is the agent of _____, of (address) _____, and is authorized to make this proof of claim on behalf of the claimant.

2. The debtor was, at the time of the filing of the petition initiating this case, and still is indebted (or liable) to this claimant, in the sum of $_____

3. The consideration for this debt (or ground of liability) is as follows:

4. (If the claim is founded on writing) The writing on which this claim is founded (or a duplicated thereof) is attached hereto (or cannot be attached for the reason set forth in the statement attached hereto).

5. (If appropriate) This claim is founded on an open account, which became (or will become due on _____), as shown by the itemized statement attached hereto. Unless it is attached hereto or its absence is explained in an attached statement, no note or other negotiable instrument has been received for the account or any part of it.

6. No judgment has been rendered on the claim except:

7. The amount of all payments of this claim has been credited and deducted for the purpose of making this proof of claim except:

8. This claim is not subject to any setoff or counter-claim except:

9. No security interest is held for this claim except:

10. This claim is a general unsecured claim, excepted to the extent that the security interest, if any, described in paragraph 9 is sufficient to satisfy the claim. (If priority is claimed, state the amount and basis thereof.)

11. This claim is filed as a(n) Unsecured___ Secured___ Priority___ CLAIM

$_____
Total Amount Claimed

Name of Creditor:_____
(Print or Type Full Name of Creditor)

Dated:_____ Signed:_____

Penalty for Presenting Fraudulent Claim, Fine of not more than $5,000 or imprisonment for not more than 5 years or both--Title 18, U.S.C., 152.

UNITED STATES BANKRUPTCY COURT

Summary of the Trustee's Final Account

NET RECEIPTS FILING FEE 40-C2 TRUSTEE's EXPENSE

	DISBURSEMENTS						
NET RECEIPTS	CLERK OF COURT		TRUSTEE'S EXPENSE	DEBTOR'S ATTORNEY	OTHER COSTS	TRUSTEE'S COMPENSATION	CREDITOR'S CLAIMS
	FILING FEE	40-C2					
456.00			20.77	350.00		22.65	2.58

		SECURED	PRIORITY	GENERAL	TOTAL
SUMMARY OF CLAIMS	AMOUNT ALLOWED			2.58	2.58
	AMOUNT PAID			2.58	2.58

THIS CASE IS COMPLETED AND THE DEBTOR IS ENTITLED TO A DISCHARGE.

YOUR CLAIM WAS GIVEN CLAIM NO.	YOUR CLAIM WAS CLASSIFIED AS
03	
AMOUNT ALLOWED	AMOUNT PAID

COPY FOR:

NOTICE

The Trustee has filed a final report which is summarized on this notice. The complete report which contains a detailed statement of each receipt and of all disbursements is on file with the clerk of the bankruptcy court and available for examination.

If any interested party desires to make further inquiry of the trustee or to object to the trustee's final report or to any part thereof or to object to the release of the trustee and the surety on the trustee's bond from any further liability in this estate, they may file an appropriate pleading with the clerk of the bankruptcy court and request a hearing thereon.

Unless a written application for a hearing is filed on or before 60 days from the date of this summary, the estate will be closed and the trustee and the surety on the trustee's bond will be released.

UNITED STATES BANKRUPTCY COURT

IN RE: Case Number _____

Creditor Number_____

DISCHARGE OF DEBTOR

An order for relief having been entered in the case of the individual above-named, a plan having been confirmed by the court, all payments under the plan having been completed by the debtor, and the court not having approved any written waiver of discharge executed by the debtor subsequent to the order for relief, it is ordered that

_____(name)_____

the debtor be and he hereby is discharged from all debts provided for by the plan or disallowed under 11 U.S.C. Sec. 502 except any debt

1. provided for under 11 U.S.C. Sec. 1322(B)(5);
2. of the kind specified in 11 U.S.C. Sec. 523 (A)(5);
3. based on an allowed claim filed under 11 U.S.C. Sec. 1305(A)(2) if prior approval by the trustee of the debtor's incurring such debt was practicable and was not obtained.

Dated July 11, 1983 at _____
For the court
John W. Smith

Glossary

Acceleration—The act of making the entire unpaid loan plus interest and penalty charges immediately due and payable.

Amortize—Provide for repayment of a loan in periodic payments over a stated period of time.

Assignment—The transfer of the promissory note, together with all rights, title, and interest, to another party. In the case of NDSLs, the note can only be assigned to the U.S. Department of Education, to an institution participating in the NDSL program, or to an eligible institution approved by the Secretary of Education to participate in the NDSL program.

Attachment—To seize property or assets by legal process.

Award letter—A means of notifying financial aid recipients of the assistance being offered. The award letter usually provides information on the types and amounts of aid offered as well as specific program information, student responsibilities, and the conditions that govern the award. Generally, the award letter provides students with the opportunity to accept or decline the aid offered. The letter may also tell the student how that aid will be applied to the student's educational expenses at the institution.

Bankruptcy—The legal act of eliminating debts or restructuring debts because of insolvency.

Billing—Process of notifying borrowers of amounts due or past due by the sending of advance, current, or past-due notices.

Billing service—An outside organization that provides to institutions the service of billing borrowers on a fee basis.

Campus-based programs—U.S. Department of Education financial aid programs whose recipients are selected by the institution. These include the NDSL, SEOG, and CWS programs.

Cancellation—Forgiving a portion or all of the principal and interest of a loan because the borrower has met certain employment requirements or because certain other regulatory conditions have been met.

Chapter 7 bankruptcy—Liquidation or straight bankruptcy. This releases the debtor from liability for dischargeable debts. Educational loans are declared nondischargeable under Chapter 7 for five years after the loan becomes due and if repayment would not impose undue hardship on the borrower.

Chapter 13 bankruptcy—Sometimes called a wage earner's bankruptcy under which creditors are repaid an approved percentage of the debt. The nondischargeability of educational loans is not specifically stated under Chapter 13 bankruptcy.

Closed-end promissory note—A promissory note that is limited in the amount that can be advanced. This amount is stated in the first paragraph of the note. A closed-end note usually is limited to no more than one academic year.

Collection agency—An outside firm that services loan accounts that have become delinquent or are in default. A fee is charged for the service.

Collections—The money returned to the fund from repayment of disbursed loans.

Complaint—In the present context, a formal allegation against another party.

Compromise an account—To adjust or settle the account for less than the full amount due. This would usually be done on the advice of an attorney.

Cured loans—Defaulted NDSLs for which the due diligence procedures in effect when the loan went into default were not completed, but for which the institution later went back and completed all current due diligence steps, beginning with skip-tracing. Cured NDSLs may be assigned as "cured" loans.

CWS program—College Work-Study program, a

U.S. Department of Education student employment program administered by the institution.

Default—Failure of the borrower to fulfill the contract or agreement by not making installment payments when due or by not complying with other terms of the promissory note.

Default rate—Ratio of an institution's loans in default to its outstanding loans or total matured loans. The ratio is calculated differently for different federally sponsored loan programs.

Defense loan—An NDSL made before July 1, 1972.

Deferment—Act of extending the repayment period for a specified period of time because the debtor has fulfilled certain regulatory requirements. Payments are not required and interest usually does not accrue during periods of deferment.

Direct loan—An NDSL made on or after July 1, 1972.

Disbursement—Process by which financial aid funds are paid to the student or credited to the student's account.

Discharge—The final action in bankruptcy, which relieves the debtor from the liability and obligation to repay a debt.

Disclosure statement—A written notice directed to the borrower that contains certain required information about the loan.

Documentation—Written evidence showing why specific actions were taken or showing that specific activities have occurred. For student aid, documentation should allow a step-by-step tracing of decisions made concerning awarding, disbursing, monitoring, and, in the case of loans, the collection of the aid awarded.

Due diligence—The attention and care legally expected or required of a person, in the logical course of events, characterized by steady, earnest, and energetic application and effort to bring about a certain condition. Also, specific steps required by governmental entities to effect collection of student loans.

Endorser—An individual who agrees to become secondarily liable for all or a part of the loan obligation by "endorsing" or "co-signing" the promissory note.

Exit interview—Interview conducted when a student borrower is ready to terminate enrollment at the institution. The purpose of the interview is to discuss with the borrower his or her financial responsibility for repayment of the loan and to obtain information about the borrower that may help the institution to collect the loan.

Financial aid transcript—Forms used by institutions of postsecondary education to collect data about any financial aid awards that a student received at other educational institutions.

Forbearance—Extension granted in loan repayment for reasons of hardship. Interest continues to accrue during the period of forbearance.

Full-time student—An enrolled student who is carrying a full-time academic workload as determined by the institution and applied to all students enrolled in a particular program.

Garnishment—To attach part of a debtor's wages, by court action, to pay a debt on which a judgment has been obtained.

Grace period—A defined length of time, between graduation or termination of studies and commencement of repayment in which interest does not accrue and payments are not required. Some loan programs also provide a grace period after certain types of deferment.

GSL program—Guaranteed Student Loan program, a U.S. Department of Education loan program administered through State Guarantee Agencies.

Half-time student—An enrolled student who is carrying half the regular full-time academic workload as determined by the institution in accordance with its own standards and practices.

HPSL program—Health Professions Student Loan program, a Department of Health and Human Services loan program, administered by the institution, that provides loans to students in medicine and related fields of study.

IRS skip-trace—Service provided by the U.S. Internal Revenue Service, through an agreement with the U.S. Department of Education, that supplies addresses of lost NDSL borrowers from IRS tax records.

Judgment—A formal decision given by a court.

Litigation—Suing in a court of law.

Loan—An advance of funds evidenced by a promissory note that requires the recipient to repay the specified amount(s) under prescribed conditions.

Low-income borrower—An individual from a family whose taxable income for the preceding year did not exceed 150% of an amount equal to the poverty level as determined by the U.S. Bureau of the Census.

NDSL program—National Direct Student Loan program, the campus-based student loan program authorized by Title IV, Part E of the Higher Education Act and administered under the auspices of the U.S. Department of Education.

Novation—A debt agreement by both parties that is a transformation of an earlier contract or agreement.

NSL program—Nursing Student Loan program, a Department of Health and Human Services loan program, administered by the institution, to provide loans to nursing students.

Offset—Deducting the amount, or a portion of the amount, an individual owes an entity from the amount the entity owes the individual. For example, when a state deducts all or part of a state taxpayer's defaulted student loan from his or her state tax refund.

Open-ended promissory note—A promissory note that permits a borrower to receive multiple advances, spanning more than one academic year, using only one note.

Partial payment—Paying a portion of an amount due which still leaves the loan in a past-due status.

Past-due loan—A loan for which payment has not been received by the scheduled due date.

Penalty charge—Charge assessed for failure of the borrower to pay all or part of a scheduled installment when due or to file deferment or cancellation forms on time.

Personal and confidential information form—A form used to obtain sufficient personal information to locate the borrower after he or she graduates or leaves the institution even though the borrower moves and leaves no forwarding address.

PLUS program—Parents Loans of Undergraduate Students program, part of the GSL program that provides loans for parents of dependent undergraduates, graduates, or professionals, and independent undergraduates. Also called the Auxiliary Loan program.

Postponement—Delaying the billing process until some time in the future, usually in conjunction with a deferment or cancellation provision.

Preloan counseling—Discussion of the rights and obligations of accepting an educational loan before the loan is given, including making clear to the borrower the obligation to repay the loan as agreed to by both parties.

Promissory note—Legal document that binds a borrower to the repayment obligations as set forth by the lending agency and the entity that provides the funds.

Reaffirmation—An act, defined by the state, by which a debtor renews an obligation; such an act marks the beginning of a new period of limitation. Reaffirmation of a debt in bankruptcy must be approved by the bankruptcy court.

Repayment schedule—Written plan that sets forth the principal and interest due on each installment payment, number of payments required to pay the loan in full, interest rate, due date of the first payment, and frequency of payments.

SEOG—Supplemental Education Opportunity Grants program, a U.S. Department of Education grant program administered by the institution.

Skip-trace—Activity of locating borrowers whose addresses are unknown.

Statement of educational purpose—A document, signed by each student financial aid recipient, indicating his or her agreement to use student financial aid funds awarded for educational purposes only. This statement must be signed by all students who receive financial aid from any U.S. Department of Education financial aid program.

Statement of rights and responsibilities—A written statement of the provisions contained within a loan agreement that provide certain advantages to the borrower and that make certain demands or requirements of the borrower.

Temporarily totally disabled—With regard to an NDSL borrower, this means an injury or illness that prevents the borrower from attending an eligible institution of higher education or being gainfully employed for an extended period of time.

Toll—Interrupting or stopping the running of a specified period of time such as the period in which defaulted debts can be collected using the services of a court of law.

Totally and permanently disabled—A borrower's inability to work and earn money because of a medically determinable impairment that is expected to continue for an indefinite period or result in death.

Truth-in-lending statement—Document prescribed by the federal Truth-in-Lending Act (known as Regulation Z) that must be provided to a borrower delineating the interest rate and other information relative to a consumer credit transaction. Truth in lending is administered

through the Federal Reserve Board. The NDSL and GSL programs are exempt from truth-in-lending provisions and borrowers under these programs do not need to receive truth-in-lending statements.

Uncollectible loan—An account that has remained in a past-due status, without the borrower taking any action to bring the loan current, despite the use of due diligence by the institution.

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